FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1976

FEDERAL RESERVE BANK OF NEW YORK

February 18, 1977

To the Member Banks in the
Second Federal Reserve District

I am pleased to present our sixty-second Annual Report, reviewing major economic and financial developments and this Bank's operations in 1976.

Last year was on balance an encouraging one, when viewed from the perspective of either the nation's economy and financial system or the work of the Bank itself. But, as the Report also makes amply clear, major challenges lie ahead.

Those challenges are most immediately evident in the need, here and abroad, to promote vigorous growth and to cut into excessive levels of unemployment. But those objectives--if they are to be sustained over time--will also require further progress toward restoring a climate of price stability and preservation of a strong domestic and international financial system. To reach for some of these goals, while neglecting others, would in the end be self-defeating.

I am convinced that the Federal Reserve Bank of New York is equipped to play a constructive role in working toward these objectives. We are dedicated to meeting that responsibility in contributing to the formulation and implementation of Federal Reserve monetary policies, in the conduct of our supervisory responsibilities, in our work for the United States Treasury, in our contacts with foreign monetary authorities, and in our varied relationships with this District's member banks, large and small.

I also recognize that some recent developments have raised more sharply in the minds of many of you questions about the nature and pricing of particular Federal Reserve services, about equitable treatment of competing institutions, and about membership itself. These are difficult matters, but their difficulty must not stand in the way of early resolution.

Broadly, the solutions need to be consistent with the effectiveness of monetary policy. They should respect important traditions critical to the development of our banking system and our economy: appropriate independence for the Federal Reserve, avoidance of undue concentration of supervisory authority, and fair competition among banks and other financial institutions. I feel sure these objectives are widely shared, and we look forward to your continued counsel, understanding, and goodwill as we work toward the resolution of these problems.

Paul A Volcker

PAUL A. VOLCKER
President

Federal Reserve Bank

of New York

SIXTY-SECOND ANNUAL REPORT

For the Year

Ended

December 31, 1976

Second Federal Reserve District

Contents

The Economy in 1976

In contrast to most earlier years of this trouble-filled decade, the world economic situation in 1976 was relatively calm and orderly. Instead of a sharp recession, as in 1974 and early 1975, there was continued, if somewhat faltering, economic recovery during 1976 in most of the major industrial countries. Financial institutions and markets in the United States and abroad that had been seriously tested by a series of earlier shocks made further progress in regaining their strength. At the same time, inflation in the world economy remained well below the crisis levels of 1973 and 1974, and in some countries the improvements recorded in 1975 were extended further. While the world had to continue to live with the manifold consequences of the 1973 oil price revolution, the resulting problems at least did not pose the fear of the unknown which they had presented at first. Finally, the international exchange rate system, although again buffeted by severe local storms, continued to function without the fundamental upheavals of 1971 and 1973.

Yet, if the year seemed reasonably trouble free by comparison with its immediate predecessors, the mood at the year-end was hardly one of ebullient satisfaction. Major problems remained: For one, the most severe postwar international recession had left in its wake a legacy of unemployment that even after more than a year of recovery continued to exceed tolerable levels for many nations of the world. Inflation, while down sharply from its earlier peaks in most countries, also stood at disturbingly high levels at the end of 1976. Clearly, further progress in reducing inflation would be difficult and, given the realities of the contemporary world, no one could be confident that renewed

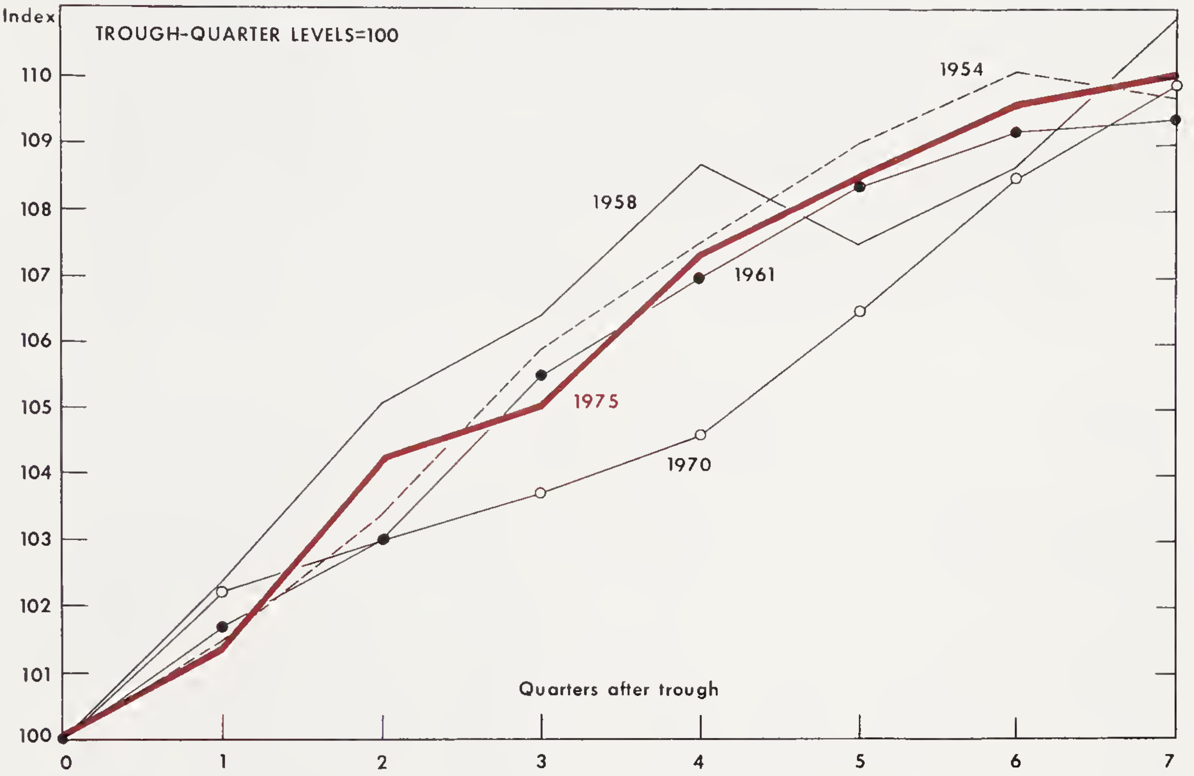
flare-ups could be avoided. Yet, experience strongly suggests that prospects for achieving growth and reducing unemployment would be severely damaged should fears of accelerating inflation again become a significant consideration. A 5 to 10 percent year-end increase in the price of oil was, fortunately, not so large in itself as to throw the recovery off course, but it plainly added to the continuing problems posed by the earlier jump in oil prices, especially to the financing difficulties of the less developed countries without oil resources of their own. Finally, the further interplay in 1976 of sharply differing inflation rates among countries and exchange rate instability experienced by some laid to rest any lingering hopes that the new, more flexible exchange rate system would permit major industrial countries to pursue policies widely divergent from their principal trading partners.

With this long list of major problems requiring attention, there was no doubt that economic policymakers would again have their work cut out for them in 1977. Nevertheless, having survived the dark period of 1974 and early 1975 far better than had at times seemed possible, considerable hope remained at the start of 1977 that the world economy could make significant progress during the year in dealing with its numerous and interrelated difficulties.

THE UNITED STATES ECONOMY. As 1976 began, the United States was in the midst of an economic recovery from the severe worldwide recession that had ended here by the spring of 1975. The pace of the expansion, although uneven, was quite vigorous overall during the first full year of the recovery, but growth slowed sharply beginning in the second quarter of 1976. At first, the slowdown in the expansion seemed neither particularly surprising nor a source of concern, since the very rapid rate of advance in the first quarter obviously reflected the unsustainable impact of a turnaround in inventory spending. As the year wore on, however, and unemployment moved up again to the neighborhood of 8 percent, the state of the recovery and the prospects for its adequacy in 1977 became an increasing source of concern.

Actually, both the strength and the pattern of the economic recovery through 1976 were in many respects fairly typical of those over comparable periods of previous recoveries since the Korean war. In the first year of the most recent expansion, for example, real gross national product (GNP) increased at a rate of 7.3 percent (see Chart 1). This was, in fact, a bit faster than the average rate of growth of 7.0 percent registered in the first year of the four preceding

Chart 1. REAL GROSS NATIONAL PRODUCT IN RECOVERIES

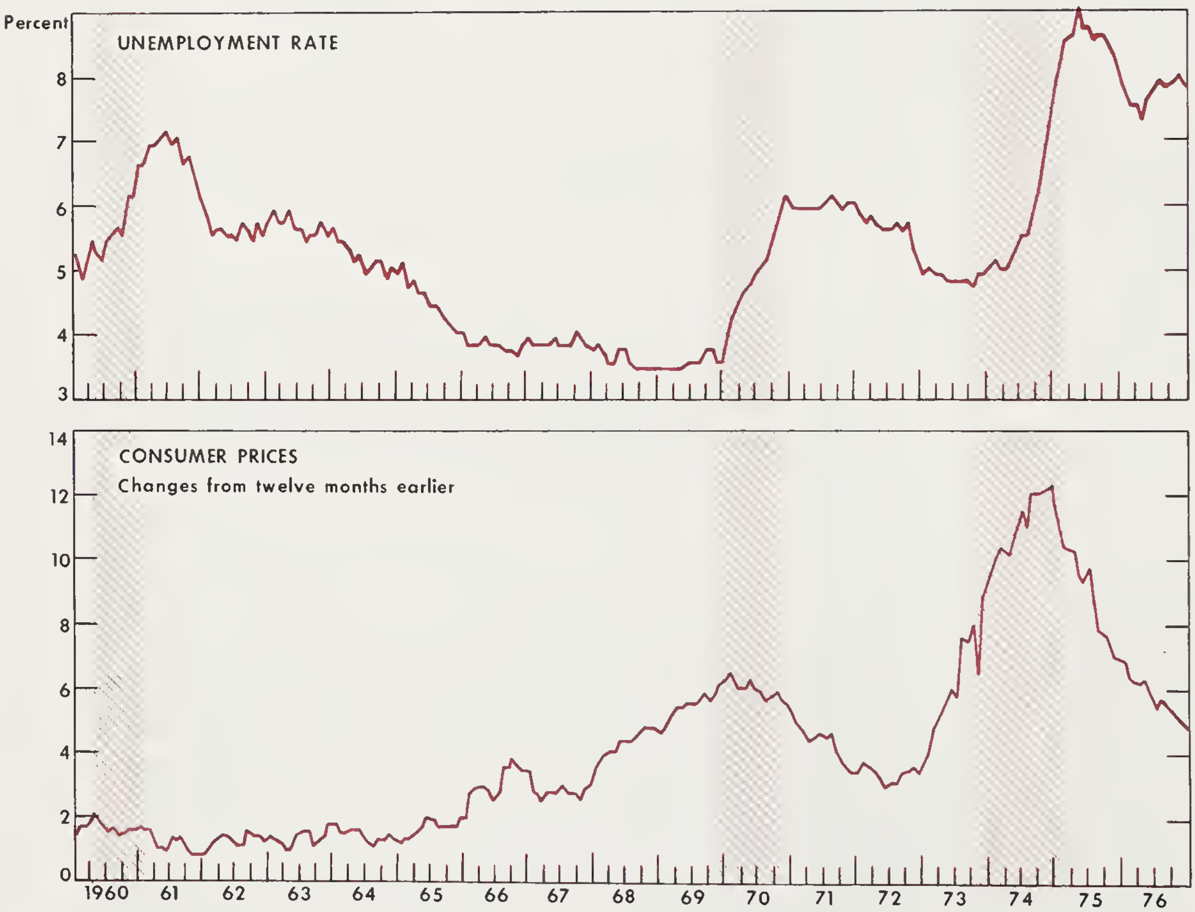


Each expansion is dated from the year in which the trough quarter occurred. The National Bureau of Economic Research has dated recession troughs in the second quarter of 1954, second quarter of 1958, first quarter of 1961, fourth quarter of 1970, and first quarter of 1975. All data are seasonally adjusted.

recoveries—those beginning in 1954, 1958, 1961, and 1970. Nor was the modest growth experienced in the final three quarters of 1976 abnormally low. Typically, output expands very rapidly in the early stages of a recovery, usually as in 1975 and early 1976 due in large measure to a turnaround in inventory behavior from liquidation to accumulation. Once the inventory correction has been completed, the pace of the recovery normally slows. During the second year of the four preceding recoveries, growth of real GNP had averaged only 3.7 percent, slightly below the annual rate of increase experienced during the final three quarters of 1976.

While the broad pattern of the current expansion closely resembled that of previous postwar recoveries, one major distinctive feature of 1976 was the continuation of unemployment at exceptionally high levels. The persistence of high levels of unemployment in part reflected the severity of the previous recession, which had helped push the overall jobless rate to a post-World War II peak of 9 percent in the spring of 1975. But after declining rather sharply through the first five months of 1976 to 7.3 percent in May, the rate once again moved up to a plateau of close to 8 percent over the last five months of the year (see

Chart 2. UNEMPLOYMENT AND PRICES IN THE UNITED STATES



Shaded areas represent periods of recession as defined by the National Bureau of Economic Research. Unemployment rate data are seasonally adjusted.

Chart 2). There had been no close parallel in earlier postwar recoveries for such a large upward movement in unemployment during the second year of recovery. The overall 1975-76 cyclical growth of employment was actually somewhat above the average of earlier experiences. This time, however, the cyclical expansion in jobs was accompanied by an extraordinarily rapid 2.5 percent annual rate of growth of the labor force. This development, in turn, reflected in good part the increasing participation of women in the labor force that has characterized recent years. Clearly this trend represents broad social forces, but it may well have been stimulated further in 1976 by a need to supplement or to replace family incomes eroded by inflation and recession.

The concern about the unsatisfactory progress in reducing unemployment was compounded in the fall. Declines in industrial production and employment and initial reports of consecutive drops in the leading indicators of economic activity raised fears that the situation might deteriorate further rather than improve. Even then, however, the risks of a near-term slide back into recession seemed small since the characteristic inventory excesses and financial market strains that generally presage an economic downturn were absent. In fact, production, employment, and sales did resume their upward path in the final two months of the year. But with continuing questions about the prospective strength of capital spending, which had lagged rather badly during the early phases of recovery, and about consumer buying intentions, doubts about the adequacy of expansion in 1977 remained widespread. The result was a growing national sentiment for some form of additional fiscal stimulus in 1977 to assure a satisfactory performance of the economy.

On the inflation front, the improvement in 1976, not surprisingly, was less dramatic than had been recorded in 1975, when the effects from a number of special factors that had pushed prices sharply higher in the two previous years dissipated. Nevertheless, there was some further progress in 1976. Consumer prices rose over the twelve months ended December of that year by less than 5 percent, compared with increases of about 12 percent and 7 percent in 1974 and 1975, respectively (see Chart 2). Part of this improvement reflected a sharp slowdown in the advance of food prices, which rose only slightly over the year as a whole. Prices of other consumer items increased at about a 6 percent rate, down from 7 percent in 1975 and perhaps a better indication of the underlying rate of inflation.

Despite some large, well-publicized major contract settlements, the rise in wage rates also showed some modest slowing in 1976. With productivity

advancing at somewhat above-trend rates over the year as a whole, as typically happens in the earlier stages of economic recovery, the increase in unit labor costs remained close to the relatively low level posted in 1975. Also, in the usual pattern of cyclical recoveries, business profits rose sharply in 1976, but profit margins against sales remained depressed as compared with postwar experience prior to 1970.

Given the large amount of slack in the labor market and in manufacturing capacity, generally abundant farm production, and the absence of an increase in world crude oil prices until the closing days of the year, it is hardly surprising that some further gains on the inflation front were achieved. Indeed, the moderate size of the improvement and the high rate of inflation remaining underscore the great difficulty, even under highly favorable conditions, of squeezing out inflation in today's world once it has become deeply imbedded in the economy. Judging from past experience, the levels of economic slack that seemed still likely to prevail in 1977, if combined with above-average productivity increases, ought to permit some further winding-down of inflation. But no one at the year-end could be assured this would in fact take place.

FINANCIAL DEVELOPMENTS. One of the more encouraging developments over the year was the continued improvement in financial conditions that had begun to emerge in 1975. Businesses, governmental units, and financial institutions all made progress toward redressing weaknesses in their balance-sheet positions which had built up over the past decade or so and which had left them especially vulnerable in the latest recession. Deposit flows to thrift institutions continued strong in 1976, helping to provide further support to the mortgage market. At the same time, the atmosphere in the financial markets was certainly much calmer than in other recent years. One reflection of greater confidence was that yield spreads between high and lower quality securities in the corporate market narrowed substantially from the extremely high levels reached in 1975 and early 1976. Such spreads also receded somewhat in the municipal sector at the end of the year, although they remained relatively wide. Moreover, interest rates in general moved within a fairly narrow range in 1976, in marked contrast to the sharp fluctuations experienced in most earlier years of this decade.

Indeed, the behavior of interest rates over the current expansion has been most unusual. Normally, interest rates move up during a cyclical recovery in response to rising demands for money and credit. In contrast, during the current expansion, rates drifted downward, and by December some rates were at their lowest levels in four years. A number of factors led to the atypical behavior of

interest rates, including modest capital expenditures by corporations and an improvement in their cash flow. Probably the most important factor, however, was a reduction in inflationary expectations associated with the moderation of inflation during the past two years.

NEW YORK'S FINANCIAL PROBLEMS. The general improvement in financial conditions in the United States during 1976 was accompanied by some important progress in dealing with the acute financial problems of New York City and New York State. The crisis in city finances of the summer and fall of 1975 was contained. The Federal Government's $2.3 billion line of seasonal credit, the state-legislated three-year moratorium on the repayment of $1.6 billion of outstanding short-term city notes, and the voluntary agreement by banks and municipal employee pension funds to postpone redemption of principal on $800 million of short-term city notes for ten years all helped to get the city through 1976 without a repetition of the cash flow problems that had plagued it in 1975. Other measures, including a wage freeze for city workers and substantial reductions in its work force, also helped to alleviate the city's financial strains. Nevertheless, the city's problems were far from solved.

To relieve the overhang of impending liabilities, the Municipal Assistance Corporation during 1976 offered to exchange the notes covered under the moratorium for long-term MAC bonds. A succession of such offerings produced conversions totaling approximately $600 million, leaving $1 billion of outstanding notes to be redeemed in November 1978. The problem posed by this debt was suddenly accelerated late in the year, however, when the New York Court of Appeals, the state's highest court, ruled that the debt moratorium had violated the state constitution. While the court stipulated that note holders were not entitled to immediate payment if that would disrupt unnecessarily the city's financial and economic balance, the ruling nevertheless confronted the city with a major challenge. As the year ended, city and MAC officials were exploring possibilities for additional credit from various sources to permit repayment of the notes during 1977.

Halfway through the three-year financial plan drawn up in 1975, the city's financial position thus remained difficult. While the court decision striking down the debt moratorium presented the most immediate challenge, there were other problems as well. With many of the more obvious cuts already made in the city's budget, the additional economies needed to achieve budgetary balance by fiscal 1978 as required in the plan seemed likely to become increasingly difficult if they were to be achieved without ultimately self-defeating cutbacks in

city services. Nor could the state be expected to enlarge greatly its aid to the city since it continued to have budgetary problems of its own. At the same time, any attempts to close the city's budget gap through increases in city taxes—already the highest in the nation—appeared almost certain to be counterproductive. Clearly, the road to renewed vitality for the city's economy and financial stability for its government was going to be long and difficult, but the feeling in 1976 was that the problem had at least begun to be addressed and a start made on its solution. Ultimately, the success of the city's endeavors to restore its access to the capital markets and to reverse the fundamental trends responsible in large measure for its economic decline will depend upon a credible commitment to ongoing fiscal prudence within the context of a concerted effort by city, state, and Federal governments to resolve the economic and financial problems characteristic of many of the nation's older urban centers.

INTERNATIONAL DEVELOPMENTS. By early 1976, most of the industrial world had followed the United States into recovery from the deepest recession since the 1930's. As here, economic activity in the major countries rebounded mainly in response to inventory adjustment and rising consumer demand. Capital spending picked up only slowly, however, and by midyear the pace of the recovery had moderated. The early upswing had been supported by cautious but still stimulative monetary and fiscal policies introduced by most countries during the preceding recession, but impetus from these measures progressively diminished during 1976. Moreover, some countries were compelled to tighten credit conditions in the interest of greater exchange rate stability. For them, persistent external payments problems and rapid inflation imposed serious constraints on domestic demand management.

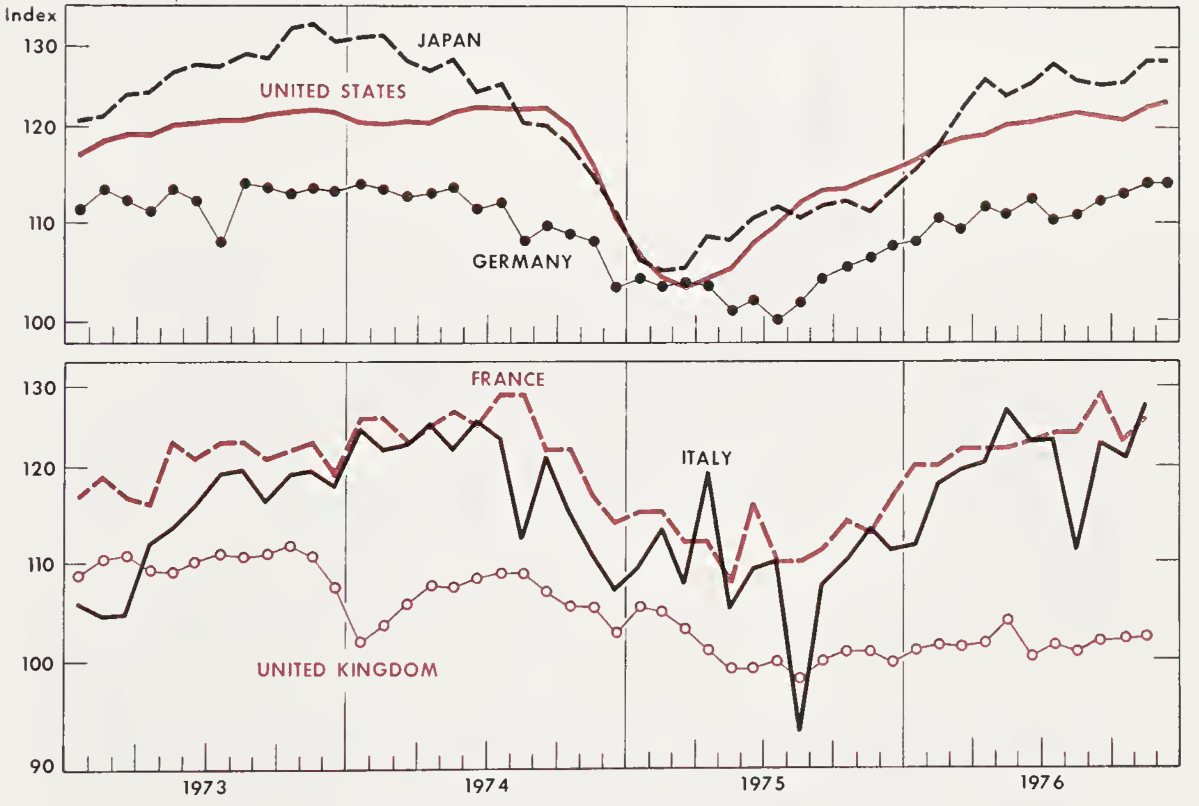
Striking disparities among countries were evident in economic growth, price performance, and international payments positions during 1976. With respect to year-over-year increases in industrial output, Japan joined the United States in leading the way, with Germany and other major Continental countries showing somewhat less growth (see Chart 3). In the United Kingdom, output hardly expanded at all, while many of the smaller industrial economies, which had been late in joining the upswing, recorded rather sluggish recoveries. With the marked slowdown in the economic expansion in the second half, unemployment began to rise again, in some cases close to previous recession peaks. Moreover, the magnitude of European unemployment was understated to the extent that

the repatriation of foreign workers sometimes resulted in their exclusion from statistics in both the northern host countries and the southern countries of origin.

Though inflation had been drastically cut during the recession, many industrial countries still experienced unacceptably rapid price increases during 1976, and at the year-end inflation was again accelerating in some countries. The best performance was recorded in Germany (see Chart 4) and Switzerland, where consumer prices at the end of 1976 were about 4 percent and 1 percent, respectively, above year-ago levels. By contrast, inflation in the United Kingdom was running at about 15 percent, and in Italy at over 20 percent, and both countries were finding it necessary to develop stronger programs to contain inflation.

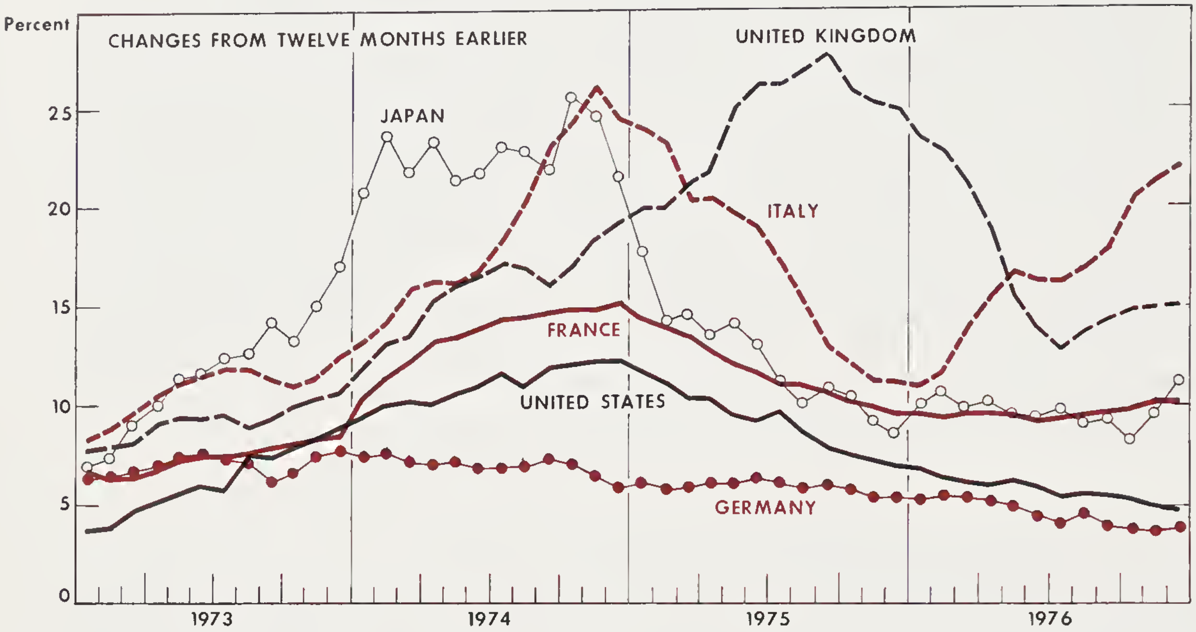
Chart 3. **INDUSTRIAL PRODUCTION IN SELECTED COUNTRIES**

Ratio scale, 1970=100



All data are seasonally adjusted.

Chart 4. CONSUMER PRICES IN SELECTED COUNTRIES

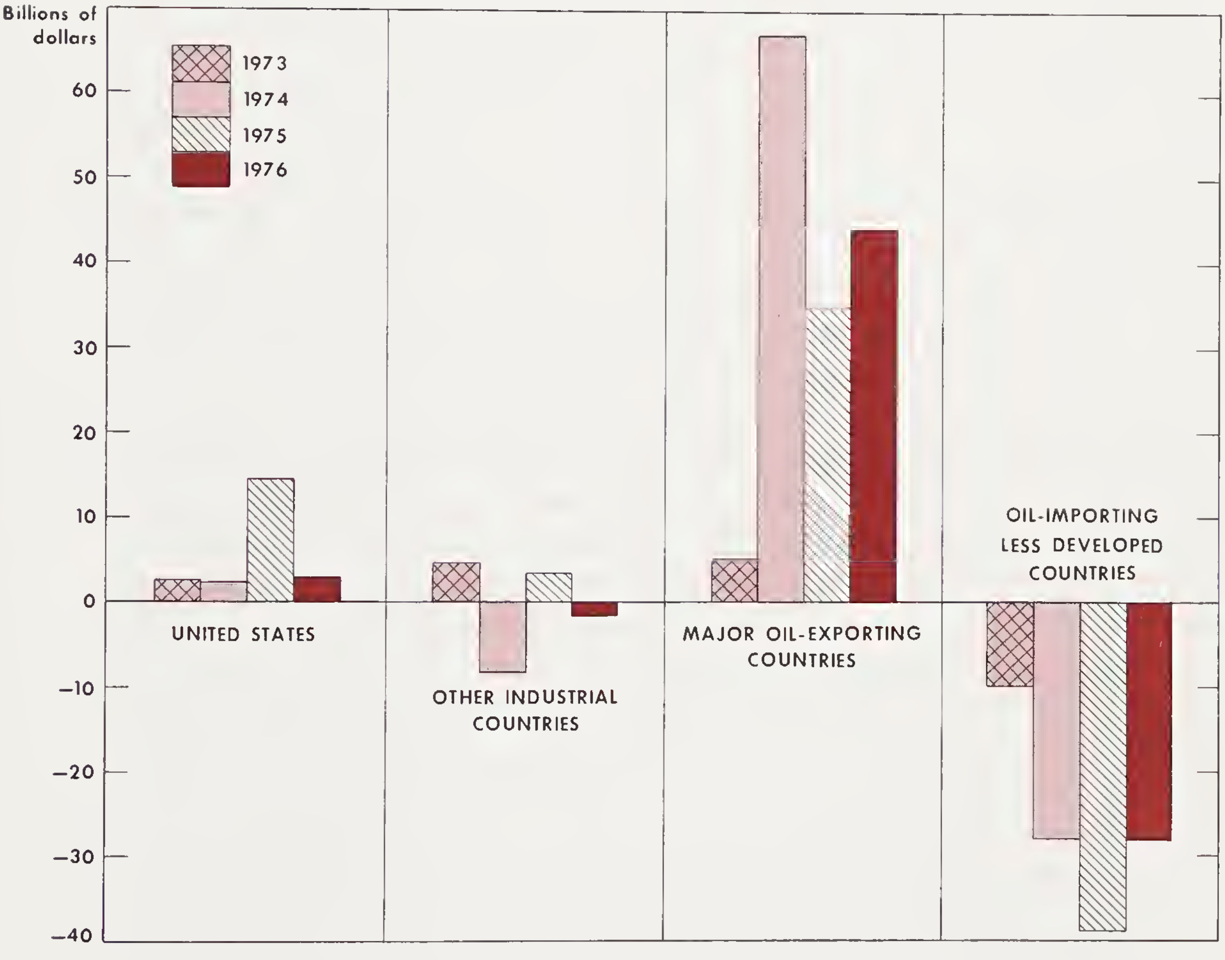


Other major industrial countries were experiencing price rises of, generally, 10 percent or less, but some smaller Organization for Economic Cooperation and Development (OECD) economies were still suffering substantial double-digit rates, as were many developing countries elsewhere in the world.

INTERNATIONAL TRADE AND PAYMENTS. The revival of economic activity during 1976 sparked a rebound in the volume of world trade after its sharp contraction during 1975. With the United States leading the economic upswing, this country's current-account surplus (excluding official transfers) narrowed from $14.6 billion in 1975 to roughly $3 billion in 1976 (see Chart 5). Although net receipts from investment income and other invisibles rose, the merchandise trade balance swung from a $9 billion surplus in 1975 to a $9½ billion deficit in 1976. Imports surged by 26 percent, while exports rose only 7 percent as the revival in foreign markets lagged. Imports from Canada and Japan accounted for more than a third of the $26 billion increase. This reflected marked inventory rebuilding in the United States, together with a vigorous recovery of demand for motor vehicles and growing purchases of consumer durables and

capital goods. More than a fourth of the overall increase in imports was due to heavy purchases of petroleum and its products, which now account for about 30 percent of aggregate United States imports. On the export side, growth was led by increased United States sales of capital goods, motor vehicles, and industrial supplies and materials.

Chart 5. CURRENT-ACCOUNT BALANCES, 1973-76



Current-account balances include goods, services, and private transfers but exclude all government transfers. More developed primary-producing countries and communist countries are not included in these groupings. Data for foreign countries are estimated by the International Monetary Fund. All 1976 figures are preliminary estimates.

Trade and payments of other industrial countries reflected not only cyclical swings, but in some cases longer term imbalances of a structural nature. Several countries—Germany, Japan, the Netherlands, and Switzerland—recorded substantial current-account surpluses in 1976. In contrast, the United Kingdom incurred another sizable deficit in 1976, while the external accounts of France and Italy swung into large deficits from surpluses in the previous year—although Italy made some progress in narrowing the gap during the second half of the year. Meanwhile, most of the smaller OECD countries still faced substantial deficits. Exports from many of these countries had benefited from the expansion in the major economies early in the year but had subsequently weakened as the economic recovery slowed.

The elimination of the 1975 surplus in the combined current account of the United States and other industrial countries was associated with an increase in the surplus of the Organization of Petroleum Exporting Countries (OPEC) and a narrowing of the sizable deficit of the nonoil less developed countries (LDCs). Expanded energy use in industrial countries, added to heavy stockpiling of oil in anticipation of further price increases, generated a rise of some 10 percent in the volume of OPEC's oil exports in 1976 from the previous year. This increase, plus the October 1975 price rise and subsequent price adjustments, may have raised OPEC revenues by 20 percent above the 1975 level. At the same time, OPEC imports from industrial countries grew less rapidly in 1976 than in the previous year, with the result that its current-account surplus rose to roughly $45 billion last year from about $35 billion in 1975. This surplus was largely held by Saudi Arabia, Kuwait, and the United Arab Emirates—countries whose capacity to absorb imports is low relative to their export earnings. In 1976, OPEC member investments were, as a whole, placed increasingly in longer term financial instruments. As a result, the average maturity structure of OPEC's total outstanding investment portfolio continued to be lengthened, although at the year-end a sizable portion was still held in short-term money market instruments. Sterling holdings were reduced during the year, and dollar-denominated assets continued to be favored, but investments were also made in assets denominated in other strong currencies.

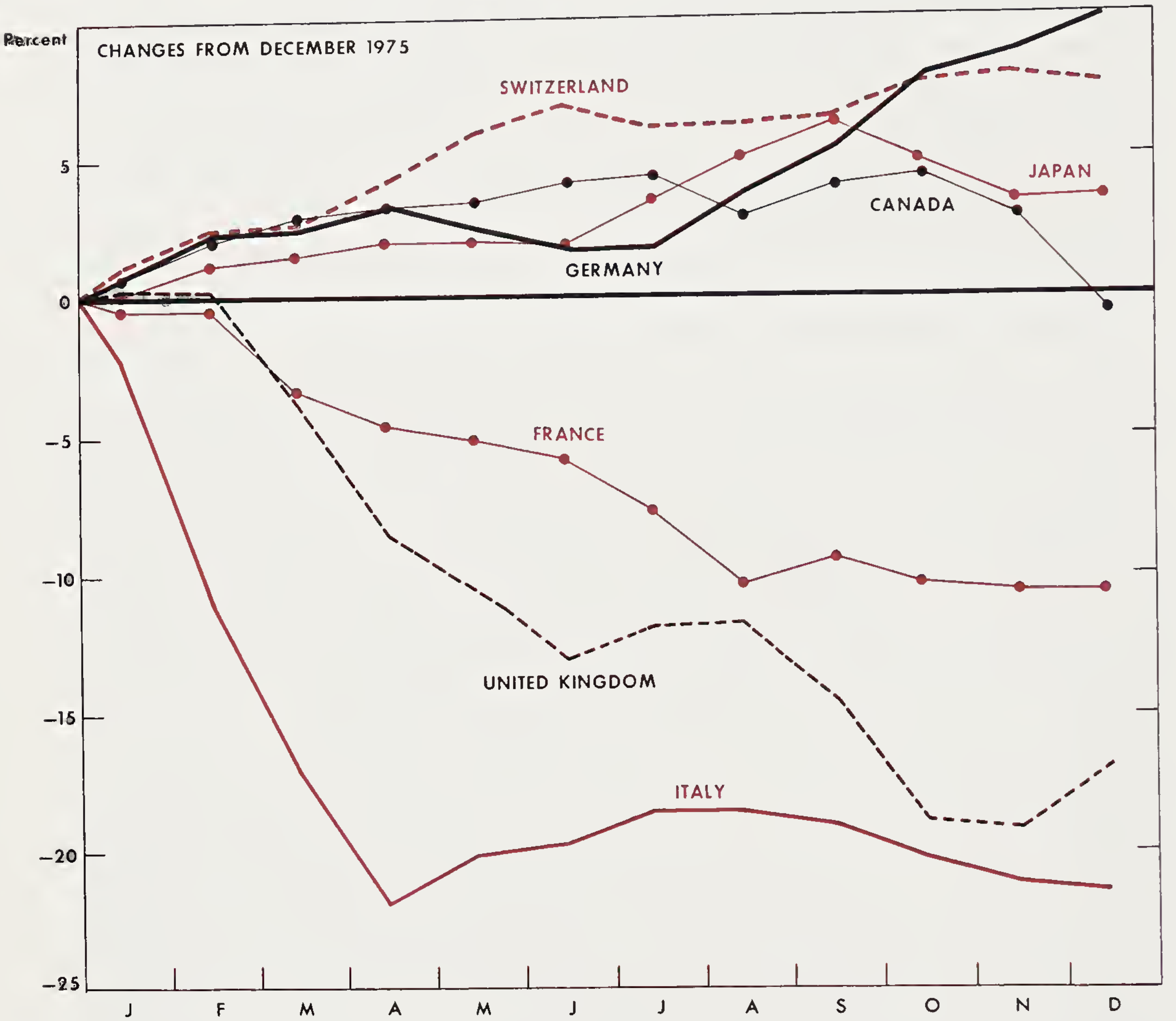
The revival of industrial countries' demand for a wide variety of imports moderated somewhat the external strain on the nonoil developing countries. This, in combination with continued access to international credit sources, enabled the nonoil LDCs to avoid the crushing real adjustment in 1976 that some observers had feared. Indeed, as a group, they managed to increase their

official reserves by about $10 billion during the year. Earnings of the LDCs rose in response to increases in both the volume and the prices of exports of primary commodities, while import volume, important for sustaining internal development, was held at the 1975 level. As a result, their combined current-account deficit declined from almost $40 billion in 1975 to about $30 billion in 1976. Nevertheless, rising debt service meant that the gross financial needs of these countries remained substantial. For some countries, doubts were developing as to the sustainability of large deficits and questions were arising concerning the prudence of continued rapid increases in private lending in the absence of more forceful corrective measures.

Private financial institutions and markets continued to play a dominant role in intermediating between surplus and deficit countries, with United States banks and markets in the forefront of these operations. United States banks, together with their overseas branches, expanded overseas credits by roughly $30 billion in 1976. Some 30 percent of this increase represented credit to nonoil LDCs, with a large part of the lending funded in the Euro-markets. Banks of other countries also participated heavily in loans to developing countries. Overall, including lending to industrial countries, publicly announced Euro-currency credits expanded considerably over the 1975 level.

FOREIGN EXCHANGE MARKETS. Divergences among the industrial countries in both price performance and payments positions led to repeated and severe disturbances in the exchange markets. Unlike other periods of exchange turbulence since the breakdown of Bretton Woods, however, the United States currency was not at the center of these episodes, although the dollar was sometimes affected as a by-product of its use as a vehicle and intervention currency. Rather, attention focused primarily on the currencies of Europe, where especially sharp contrasts in economic performance generated adverse commercial leads and lags, together with other precautionary and speculative flows. As a result, early in the year the British pound and the Italian lira depreciated rapidly, and the French franc departed from the European Community "snake" arrangement. Pressures again emerged in the snake during late summer, as the markets came to expect an imminent revaluation of the mark against the other participating currencies. A readjustment of snake parities was carried out in October, and the speculative pressures subsided. Nonetheless, some bidding-up of the mark and other snake currencies against the dollar persisted, reflecting in part a narrowing of interest rate differentials favorable to the dollar, a trend which had begun around midyear.

Chart 6. EXCHANGE RATE CHANGES AGAINST THE UNITED STATES DOLLAR, 1976



Exchange rate data are monthly averages of noon offered rates in New York.

By the close of 1976, the structure of exchange rates had shifted significantly (see Chart 6). Based on the average December 1976 values of currencies compared with the corresponding December 1975 values, the German mark, Swiss franc, and Japanese yen appreciated against the dollar about 10, 8, and 4 percent, respectively, while the French franc dropped almost 11 percent,

sterling 17 percent, and the lira 21 percent. The Canadian dollar was little changed on balance against the United States dollar, although it had come under considerable pressure late in the year. The Mexican peso, on the other hand, depreciated by 44 percent. The dollar, for its part, fluctuated quite narrowly on a trade-weighted average basis against the currencies of the major industrial countries over most of the year.

MONETARY POLICY IN THE UNITED STATES. The basic thrust of monetary policy in the United States was little changed in 1976 from the preceding year. Still faced with high unemployment and rapid inflation, the Federal Reserve System sought to promote financial conditions that would facilitate a sustainable economic recovery while at the same time helping to dampen inflation in the economy.

During the year, long-term projections for the growth of monetary aggregates continued to occupy a prominent place in the formulation of policy. The Federal Open Market Committee (FOMC) had begun experimenting internally with such longer term projections in the early 1970's as a bench mark for evaluating short-run monetary aggregate movements. Starting in the spring of 1975, after discussion with the relevant Congressional committees and a Congressional resolution supporting the concept, targeted ranges were formulated and announced publicly for the first time for the growth over yearly horizons of several monetary aggregates, including M_1 (the narrowest definition of money: currency plus demand deposits), M_2 (which also includes consumer-type time and savings deposits at commercial banks), and M_3 (which equals M_2 plus deposits at thrift institutions). At the time the new procedure was initiated, the FOMC made it clear that it was not focusing exclusive attention on the monetary aggregates and that the projected ranges were always subject to change in the light of emerging economic and financial developments. Moreover, the FOMC indicated that it was neither possible nor desirable to attempt to control closely the growth of the aggregates over short periods of time, such as a few weeks or even months. Rather, it was recognized that growth rates from month to month and even from quarter to quarter of the various measures of money could well fall outside the ranges contemplated over annual periods. These general principles continued to apply to the use of long-term aggregate targets in 1976.

As had gradually become the practice in 1975, projections in 1976 were

formulated each quarter for the four-quarter period ahead. The numerical growth rates defining the ranges for the various aggregates were adjusted on several occasions during 1975 and 1976. In general, the growth ranges of all three aggregates were adjusted downward in small steps. At the end of 1976, the projections covered the period from the third quarter of 1976 to the third quarter of 1977. The growth range for M_1 stood at 4½ to 6½ percent, down from the first publicly announced range of 5 to 7½ percent which had covered the March 1975 to March 1976 period. At the same time, the M_2 range stood at 7½ to 10 percent and the M_3 range at 9 to 11½ percent, compared with their initial ranges of 8½ to 10½ percent and 10 to 12 percent, respectively.

THE STRATEGY OF FORMULATING AGGREGATE PROJECTIONS. The yearly projections for the expansion of the aggregates reflected the efforts of the FOMC to strive for a moderate course—one that would both support the recovery and be consistent with an orderly reduction in the rate of inflation. The FOMC was aware that overly rapid growth of the money supply would risk aggravating the problem of inflation, particularly in an environment in which the public had become highly sensitive to potential inflationary pressures in the economy. At the same time, it recognized that the strong inflationary momentum that had developed over a period of years could not be halted abruptly without endangering the economic recovery. Consequently, the projected ranges were set at levels high enough to support continued growth in real output, even with some further increases in prices so long as the rate of price increase diminished somewhat. Spokesmen for the System emphasized, at the same time, that growth of the monetary aggregates would have to be reduced gradually over time to foster conditions in which general price stability could be restored. Past experience, for example, suggests that growth rates as low as 1 to 2 percent for M_1 and 3 to 4 percent for M_2 might be consistent in the long run with a non-inflationary economy in the United States. The gradual reduction in the growth ranges for the monetary aggregates in 1975 and 1976 thus represented limited but prudent steps in that direction.

Adjustments in the yearly targets for the aggregates were also prompted by technical factors which tended to depress M_1 growth while spurring the expansion of the broader aggregates. In setting the one-year M_1 range as of mid-1975, the FOMC had already allowed for an above-trend increase in the turnover, or "velocity", of money since relatively rapid increases normally take place during economic recovery. In fact, M_1 velocity—that is, the ratio of GNP to M_1

—rose at an even faster pace than in most previous postwar recoveries. The unusual rapidity of this increase was especially remarkable since it occurred against a background of declining interest rates rather than the more normal recovery pattern of rising rates. Rising interest rates tend to spur more rapid money turnover by increasing the incentive to employ idle money balances in interest-bearing instruments. Conversely, the falling rates that have occurred in the current expansion would normally be expected to act as a drag on the growth of M_1 velocity.

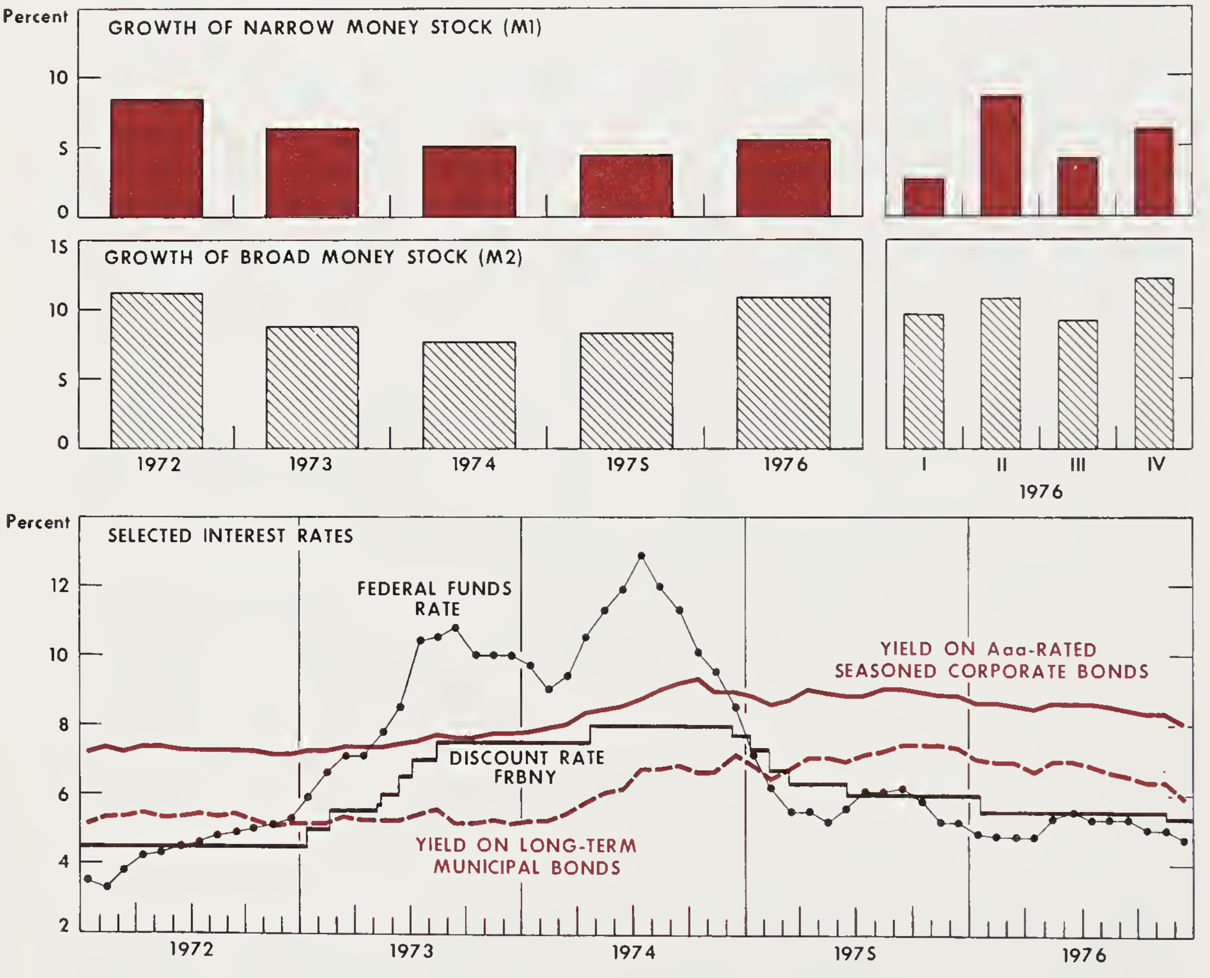
Various financial innovations and regulatory changes appear to have contributed to the increasing desire of the public to economize on M_1 balances—thereby increasing M_1 velocity. While changes of this sort were not unusual in earlier years, they appeared particularly significant in 1976. These developments included, most notably, the growth of NOW (negotiable order of withdrawal) accounts in New England, the introduction of checking deposit accounts at certain thrift institutions in New York State, and changes in regulations that allowed state and local governments and businesses to hold savings deposits at commercial banks. Growth of the broader monetary aggregates, such as M_2 and M_3, appears to have been stimulated, on balance, as a result of these actions. More important as a stimulant to M_2 and M_3 was the steady-to-declining trend in open market rates. This development made the various kinds of interest-bearing deposits highly competitive with market instruments at a stage in the business cycle when the opposite tendency has often been present. As a result, the expansion in 1976 of the broader aggregates which include these deposits proved to be unexpectedly rapid and, in setting the yearly projections for the third quarter of 1976 to the third quarter of 1977, the FOMC raised the upper bounds of the ranges slightly for the growth of M_2 and M_3.

MONEY STOCK GROWTH IN 1976. Over the year as a whole, growth of the monetary aggregates was broadly consistent with the FOMC's long-run projections. Measured from the fourth quarter of 1975 to the fourth quarter of 1976, M_1 advanced by 5.4 percent (see Chart 7)—well within the range announced for that period. At the same time, growth rates of the broader aggregates were close to the upper ends of their respective ranges, with M_2 increasing by 10.9 percent and M_3 by 12.8 percent.

Expansion of the monetary aggregates for the year as a whole in line with the FOMC's objectives was achieved in 1976 with only modest changes in money market conditions. At the outset of the year, the System was providing reserves generously in response to a shortfall in money stock growth that had

developed in the latter months of 1975. As a result, the Federal funds rate dropped in the early weeks of January by about 40 basis points to about 4¾ percent and hovered close to that level until the end of April (see Chart 7). Other short-term interest rates also declined early in the year, and in mid-January the Federal Reserve discount rate was cut ½ percentage point to 5½ percent.

Chart 7. MONEY AND INTEREST RATES



The money stock growth rates are computed from daily average seasonally adjusted levels in the final quarter of the preceding period and the final quarter of the period covered. Quarterly figures for 1976 are expressed at annual rates. Rates for Federal funds and yields on Aaa-rated seasoned corporate bonds are monthly averages of daily figures. Yields on long-term municipal bonds are monthly averages of Thursday quotations.

During the next several months, growth of the aggregates picked up and indeed turned excessively rapid for a brief period in April and May. Accordingly, the System gradually became less accommodative in the provision of reserves, and the funds rate moved upward to a peak of 5½ percent at midyear. Over the second half of 1976, growth of the aggregates varied sharply from month to month, as is normally the casc but, for M_1 at least, averaged at or close to the lower end of the FOMC's long-run objectives. Given the relatively modest growth of M_1 over this period, and particularly in light of the slowdown in the economic recovery, the FOMC gradually sought an easing in money market conditions. The Federal funds rate, which had fluctuated narrowly around the 5¼ percent level from mid-July through September, fell to 4⅝ percent by the year-end. Other short-term interest rates also dropped, and the Federal Reserve discount rate was again reduced toward the end of November by ¼ percentage point to 5¼ percent.

PROJECTING MONETARY AGGREGATES: AN OVERVIEW. Enough practical experience with quantifying policy objectives through monetary aggregate targets has been obtained over the past two years to suggest its continuing usefulness, as well as certain problems with the technique that have not always been widely understood. In the first place, it is clear that short-run control of the money stock is exceedingly difficult whatever precise tactical approach might be employed. Movements in the monetary aggregates from week to week and even from month to month are often quite erratic, perhaps largely reflecting measurement errors and problems of seasonal adjustment. Failure to appreciate the large random element in these data as they are published have on occasion led to sharp but usually short-lived market reactions and unwarranted assumptions about monetary policy. Of course, this same erratic element in the numbers at times also makes it difficult for the policymakers themselves to judge accurately the underlying trend. More basically, the setting of long-run projections for the aggregates remains a matter of difficult judgment. The relationships among the various money stock measures and the economy are not always stable or dependable. Some of this instability appears to reflect the effects of legal and institutional changes on the attractiveness of the various kinds of deposits, and the magnitude of these effects is difficult to estimate even in retrospect. This very instability emphasizes the continuing importance of taking account of other types of information in the policymaking process.

Despite these problems, formulating and announcing long-run projections for the monetary aggregates have proved highly useful. The basic point of departure

for this procedure—that growth of the money supply is fundamentally related to prospects for inflation—is sound. In specifying moderate money stock objectives, the System has been able to communicate in a straightforward, readily understandable manner its intentions with respect to prompting a sustainable recovery while limiting inflationary forces, and the symbols and substance of that policy appear to have had a calming effect on the economy by reducing inflationary expectations. Moreover, setting longer term projections seems to have provided a useful framework for debate within the System. These projections mean that short-term decisions have to be justified and rationalized against broader judgments about the appropriate growth of money for a longer period. The temptation to overreact to each new piece of information is thereby lessened.

Perspective on Policy

DEALING WITH UNEMPLOYMENT AND INFLATION TOGETHER. The experience of simultaneous high unemployment and inflation that persisted in 1976 in most of the industrial countries has emphasized the need to treat unemployment and inflation as related issues requiring a policy strategy equipped to deal with them jointly. The once widespread view that price stability and high employment are competing goals and that policymakers can "buy" lower unemployment by accepting more rapid inflation has become increasingly difficult to sustain. As both unemployment and inflation climbed to postwar record levels in the first half of the 1970's here and abroad, evidence has accumulated that any trade-off that may exist between unemployment and inflation is very short-lived.

This seems to be especially clear whenever the public becomes highly sensitive to the possibility of accelerating inflation, as it has in recent years. Repeatedly over the past two years or so, reports of flare-ups in prices have quickly registered adverse effects through rising interest rates, declining stock prices, and more cautious lending policies. These responses in financial markets both reflect and contribute to adverse effects on consumer and business confidence and on spending plans. In these circumstances, fear of renewed inflation can be and is an important obstacle to the kind of substantial and sustainable

real economic growth needed to bring unemployment down to more tolerable levels and to hold it there. Indeed, this increased public sensitivity to the risks of longer run inflationary implications of policy has circumscribed the available choices in developing expansionary policies relative to an earlier postwar period when inflation rates were much lower and when public apprehensions regarding inflation were less easily aroused.

This does not mean that inflation must be ended before the unemployment problem can be addressed. Nor does it imply that traditional aggregate demand policies cannot be used to speed up a lagging recovery if needed. But it does suggest that the choice of instruments is critical, that aggregate demand policies cannot safely be pressed "full speed ahead" in the assurance that capacity limits in the economy are well off in the distance, and that there need be no immediate concern about dealing with inflation. Instead, a credible strategy for dealing with inflation has become an essential element in a program to cope with unemployment. Full success in the sense of restoration of general price stability and reduction of unemployment to frictional and transitional levels will be the work of several years, but it is critical that policies be developed to that end.

THE PROBLEMS WITH ACCEPTING THE CURRENT INFLATION RATE. Another view has sometimes been argued: that a steady rate of inflation, once it becomes fully anticipated and embedded in institutional relationships, imposes no significant economic costs and that an attempt to restore price stability would be unneccssary and harmful to prospects for production and employment. There is good reason to doubt, however, that the American economy has in fact fully adjusted to recent inflation rates or that such adjustment to any substantial fixed rate of inflation is likely. A crucial difficulty with a policy of merely containing inflation at levels close to the current rate, say 5 or 6 percent, would be that it would lack credibility, a matter of critical importance in an area where expcctations are fundamental. A willingness to live with inflation would not in itself deal with the economic, social, and political pressures—pressures for unsustainably rapid growth, for larger shares of real income, and for protection of traditional market positions—that have accounted for an inflationary bias in industrial economies over the recent past. Unless these pressures are faced and dealt with in a convincing way, any existing rate of inflation would be driven still higher whenever unfavorable circumstances developed, as they surely would from time to time. Indeed, resistance would be weakened by the false presumption that we could merely "adjust" to a new and higher level of inflation. For that reason, a policy approach which would aim merely at stabilizing inflation at its current rate

would likely turn out in practice to be no more than temporizing with regard to the underlying problems and would probably be so perceived by consumers and by business.

APPROPRIATE STRATEGIES FOR MONETARY AND FISCAL POLICY. One essential cornerstone of a credible anti-inflationary strategy is a commitment to bring down gradually the growth of money and credit to levels compatible with long-run price stability. Such a commitment in the United States has in fact been reflected in the small adjustments that have been made from time to time in the one-year growth projections for the monetary aggregates. To be sure, it would be a gross oversimplification to explain the behavior of inflation solely in terms of monetary behavior. In the short to intermediate run, the relationship between the two is rather loose, and it is obvious that over such periods many factors other than monetary growth have an important bearing on the behavior of prices. Even in the long run, where the statistical association of monetary growth and inflation rates is more clear-cut, a purely monetary view of inflation appears sterile, ignoring the complex social and political factors that frequently cause price increases originating elsewhere to be accommodated through monetary expansion. Nevertheless, an appropriately low long-term rate of monetary growth is likely to prove at least a necessary condition for long-run price stability. A commitment to decelerate monetary growth gradually can therefore be important not only for its substantive value but as a symbol of a credible commitment to end inflation.

If the broad outlines of monetary strategy are to be shaped within a general framework of looking toward a gradual reduction in the growth of the monetary aggregates to noninflationary levels, there are obviously limits to the extent to which monetary policy can be used as a short-run economic stimulant without seriously compromising that objective. In this context, the year-end search for possible sources of additional economic stimulus in 1977 properly tended to focus more directly on fiscal policy, including reductions in personal income taxes. In designing fiscal policy for the longer run, however, one important consideration will need to be the impact of the tax structure on incentives and on the mix of spending for consumer and capital goods in the economy. This issue is particularly relevant now because capital spending through 1976 was especially weak in the recovery and there is reason to wonder whether its longer run growth trend will prove sufficient to support rates of overall economic growth at satisfactory levels. Expansion in plant capacity is significant not only for its short-run impact on demand and economic growth, but also because

adequate productive capacity has to be a key element in overall anti-inflationary strategy as unemployment is reduced. While there were no major capacity problems in near view as of late 1976, there remained the danger that recent weak capacity growth, if continued, could lead to capacity shortages in critical areas of the economy well before the labor force is once again fully employed. Such a development, which would not be without precedent in our postwar history, would mean renewed pressures on prices at a time when unemployment remained a problem.

THE NEED FOR STRUCTURAL REFORMS. A comprehensive long-run approach to our combined unemployment-inflation problem will probably have to involve not only appropriate strategies for monetary and fiscal policy but also strategies to deal with "structural" problems. The overall unemployment rate that would prove consistent with nonaccelerating rates of inflation appears to be higher in the United States than in many other industrial countries, and it has probably been rising further in recent years as a result of longer run demographic and social forces. Against this background, we need to take a hard look at policies designed to improve the efficiency with which the labor market absorbs job seekers in order to reduce noncyclical "structural" unemployment. One factor, for example, accounting for the relatively high average level of unemployment in good times and bad is the level of teenage unemployment. Such unemployment is not only much higher than adult unemployment but is apparently also higher than teenage unemployment in many other industrialized countries. There are several policy avenues that might relieve this and other structural problems within the labor market that can be explored and introduced as part of an overall package of policies to deal with the unemployment-inflation problem.

INTERNATIONAL ECONOMIC ISSUES. The problem of attaining sustainable growth without inflation is complicated for most countries by the simultaneous need to facilitate the process of international adjustment. This process has both real and financial dimensions. On the real side, there is an imbalance on current transactions. The major oil producers and a few industrial countries are running large surpluses, while the rest of the world is in deficit. OPEC's surplus is of course primarily attributable to the increases in oil prices of recent years, but the other important part of the imbalance has its origin in the policies of the oil-consuming countries themselves. Any early balance in the current accounts of some oil producers cannot be expected. So long as the oil

producers run a surplus, the rest of the world cannot escape a corresponding deficit and that deficit must somehow be financed. Moreover, it is appropriate that capital-rich countries—including the newly rich oil producers—provide real and financial resources to strengthen the economies of the nonoil developing countries. Over time, however, the latter will need to continue to increase their exports and thereby swing their external accounts toward equilibrium. In that sense, the problem should be ultimately soluble. But that orderly process will be distorted and impeded to the extent that individual countries fail to deal with exceptionally large deficits—or stronger ones husband or expand their surpluses—taxing or exceeding the limits of financing to bridge the gap. Consequently, there is urgent need both to reduce the exceptional imbalances that mar the current scene by means of appropriate adjustment policies and to assure the availability of finance as the adjustments are made. By providing finance on the condition that appropriate policies be adopted, the monetary system can help to meet both needs.

REDUCING EXTERNAL IMBALANCES. In judging whether as much is being done as possible to correct the international imbalance, several questions stand out. Are the oil-consuming countries doing as much as possible to reduce their current-account deficits with OPEC? Are the industrial countries in strong payments positions doing enough by way of economic expansion or trade liberalization to support growth in the exports of others? And have some industrial and developing countries neglected to take strong and appropriate action to reduce or to eliminate their own nonoil deficits? On the first question, it is clear that the industrial countries, and especially the United States, still have a long way to go before they exhaust the possibilities of oil conservation and the development of alternative energy supplies. Large savings remain to be realized in the use of petroleum products for transportation, heating, and industry. Huge reserves of coal remain unexploited and the full potential of nuclear, solar, and other sources of energy is still to be attained. Assisted by oil from Alaska, the North Sea, and other non-OPEC sources, these countries are not helpless in reducing both their growing dependence on OPEC oil and the surplus of the oil-producing countries with the rest of the world.

Additional measures of another kind are clearly needed to bring an early reduction in the imbalance among the oil-consuming countries themselves. As always, such adjustments must be two-sided. Already several of the major deficit countries have adopted programs designed to strengthen their external accounts. More vigorous efforts by some of these as well as other countries may be needed.

However, their adjustment programs cannot succeed unless they are supported by the adoption of complementary policies on the part of countries whose external positions are strong. The problem for the latter is to adopt adjustment policies that are consistent with their need to progress further in the reduction of both inflation and unemployment. In seeking to reconcile domestic and external aims, governments in the stronger countries can choose—depending on circumstances—among varying combinations of policies, including stimulation of demand, reduction of trade restrictions, and provision of adjustment assistance.

ADJUSTMENT AND FINANCE. While the adoption of appropriate domestic policies in both surplus and deficit countries is fundamental, the success of the international adjustment process also depends heavily on the proper functioning of exchange rates and on the availability, and effective utilization, of finance. In a world in which the economic performances—and especially the inflation rates—of individual countries diverge sharply, changes in the exchange rate structure must play a key role in the adjustment process. Indeed, countries inflating markedly more than their trading partners must expect their exchange rates to depreciate. The depreciation, in turn, influences domestic prices of imports, signaling and intensifying the need for appropriate policies to deal with the inflationary problem. Beyond such necessary adjustment in exchange rates in response to inflationary differentials, developments in the past year have continued to suggest the cost for the world economy of excessive volatility in exchange rates. This danger is likely to be especially acute when bandwagon pressures in the exchange markets push rates substantially beyond the levels that can be justified by changes in competitive positions.

The objective must be, therefore, to preserve the benefits of exchange rate flexibility while reducing the danger of excessively large or volatile swings in rates. Besides distorting competitive positions, such swings can vastly complicate internal economic management and even lead to retaliation, thus impairing the stability and openness of the multilateral trading system. To avoid such dangers, member countries agree—under the amended articles of the International Monetary Fund (IMF)—to direct their policies toward "orderly economic growth with reasonable price stability" and to avoid manipulating exchange rates in order to "gain an unfair competitive advantage over other members". The amended articles also give the Fund responsibility for maintaining "firm surveillance" over the exchange rate policies of members as well as for the development of "specific principles" to guide members with respect to such policies. Close

examination of both actual experience with exchange markets in specific cases and the effectiveness of policy reactions can point the way as the Fund moves to meet these responsibilities.

The key to fulfilling members' obligations under the amended articles lies in choosing an appropriate mix of adjustment policies, and it is by putting the authorities in a stronger position to make such choices that finance can play its essential role. In 1976, the financing required to provide time for adjustment policies to bear fruit was readily available to countries that adopted programs adequate to deal with their external deficits. Indeed, in some cases financing may have been so freely available that deficit countries, far from being required to make adjustments, have had little or no incentive to do so and have postponed measures that, sooner or later, will be necessary. The substantial rise in the external debts of a few industrial and developing countries supports this impression.

CHANGING THE FINANCIAL MIX. Thus, there is some question about how well the existing mix of private and official financial arrangements is serving the needs of the international economy. Commercial banks in the United States and abroad, as well as international bond markets, have played a vital role in financing the international imbalance during the past three years. No doubt, the banks and bond markets will have to continue to play a large part. But the need to limit risk exposure suggests that the increase in lending by the private sector to some countries will properly slow and become more selective. Consequently, reliance on official financial arrangements may well increase. While credit facilities among leading central banks can occasionally play a limited, short-term bridging role, the worldwide and longer term character of the continuing imbalance suggests that attention must be directed toward other institutions, building on the facilities of the World Bank group and the IMF.

Resources of the latter are scheduled to be increased substantially in 1977. However, part of this increase has already been committed under the Jamaica agreement, which authorized the Fund to extend drawings in anticipation of the enlargement of its quotas. With a view to meeting a $3.9 billion drawing by the United Kingdom, while remaining in a position to satisfy the needs of other members, the Fund announced early in 1977 that it would borrow the equivalent of about $3.3 billion from nine industrial countries, primarily under the General Arrangements to Borrow. This call leaves relatively small resources available under the GAB, while other funds of the IMF are also limited. However, the Interim Committee of the IMF agreed at Jamaica that members could

make drawings beyond the established limits "in exceptional circumstances", and that the question of the credit tranches could be reexamined at any time if members' needs made it advisable. Beyond this, governments can always take *ad hoc* cooperative steps to supplement the resources of the Fund should that become appropriate. The responsibility in assuring that adequate resources are available lies, of course, primarily with the stronger countries, not only industrial ones but also the major oil producers.

In giving assurance that available financial resources are used to foster adjustment, the IMF has long played a key role. Drawings on that institution beyond the initial tranches have, of course, always been conditional upon the adoption of measures to reduce the borrowing countries' external deficits. In contrast, commercial banks have rarely been in a position to insist on such adjustment programs from borrowing countries. Accordingly, there is much to be said for closer cooperation between the banking community and the Fund in the extension of credits. Indeed, to the extent that loans abroad are made when the debtor countries adopt programs acceptable to the IMF, commercial banks can have increased confidence in the soundness of their claims. More broadly, such cooperation between commercial banks and the Fund would link finance closely to adjustment and thus help to hasten the elimination of the imbalance in the international economy.

It was clear at the year-end that the international community faced difficult choices. The strong countries, led by Germany, Japan, and the United States, were striving to strike a balance among multiple objectives. In each case, they faced the challenge of further reducing inflation while adopting policies that would facilitate fuller utilization of their own resources. Success in those directions would help create an environment in which other oil-consuming countries could cut their deficits while encouraging greater stability and growth. At the same time, there was need for building stronger links between the provision of finance and international adjustment and for carrying forward cooperative efforts to combine flexibility with stability in the operation of the exchange rate system.

Expanded Efforts in Bank Supervision

The past year has been a period of corrective adjustment in the banking system, to which the general improvement in economic and financial conditions provided some measure of assistance. Loan portfolios and policies have been reviewed by bank managements, and by earlier postwar standards substantial amounts of loans viewed as uncollectible have been written off. Transfers to maintain loan loss reserves have been made. Indeed, these allocations have tended to exceed loan losses, bringing loan loss provisions to the highest level in years. Despite the impact of these charge-offs and transfers, bank profits have generally stabilized and capital ratios have moved somewhat higher after a period of erosion. From a regulatory viewpoint, these responses to the turbulence and difficulties of recent years are constructive and encouraging.

While many firms emerged from the recession in a stronger financial position, some weaker entities—including a few banks—did not survive. In this District, one state member bank, the American Bank and Trust Company, with $170 million in deposits, was ordered closed by the New York State Superintendent of Banks on September 15, 1976. The action was taken as a result of sizable losses in the bank's loan portfolio, apparently caused by large-scale "insider" dealings by a group seeking control of the bank. The Federal Deposit Insurance Corporation was appointed receiver of the institution and arranged for a purchase of certain assets and the assumption of certain liabilities, including all deposits, by the Bank Leumi Trust Company of New York, a member of the Israel-based Bank Leumi group. Following the purchase all former offices of the American Bank and Trust Company were in operation as offices of Bank Leumi, and there were no losses incurred by American's depositors.

Despite improved conditions in the banking system, in 1976 this Bank, and the Federal Reserve System generally, continued to expand and to improve efforts for the examination, monitoring, and regulation of banks and bank holding companies. These efforts included an increase in the frequency of bank holding company inspections, with coverage broadened to include reviews of significant nonbank subsidiaries. The Bank also participated in an expanded program of limited scope examinations of offices of state member banks in Europe and Japan and in expanding programs for examining the adequacy of

auditing programs, systems, and control procedures of banks. New programs for the examination of stock transfer agent activities and municipal securities' dealer operations at state-chartered member banks were initiated. The Bank was involved in developing new techniques for assessing capital adequacy and bank liquidity as well as in making further refinements in a system which monitors performance of commercial banks between examination dates and provides early warning of emerging weaknesses in financial positions.

During the year, the responsibilities of the Federal Reserve System in the area of consumer protection laws and regulations were expanded with the passage of amendments to the Equal Credit Opportunity Act. Revised regulations were issued by the System to meet the new duties imposed by such amendments. The Bank and the System also increased efforts to monitor compliance by state member banks with consumer protection laws and regulations. This included development of a program to educate bankers and others in the requirements of such regulations and participation in a pilot project for a regulatory inspection program which would review compliance with such regulations within the context of periodic bank examinations.

Overall, these efforts required the commitment of considerable additional resources, with the result that the area of this Bank responsible for bank examinations, regulations, and related efforts was the one area in which employment rose markedly during the year.

The Problem of Membership Withdrawals

In the last few years, a significant number of banks have elected to withdraw from membership in the Federal Reserve System, thus continuing a steady decline in the percentage of total commercial bank deposits held by member banks. This erosion in the deposit base subject to System reserve requirements, if not checked, would ultimately threaten to impede the task of implementing monetary policy. Almost without exception, banks leaving the System have cited the high costs of maintaining noninterest-earning reserve balances with the Reserve Banks—costs which are well in excess of the cost of reserve requirements imposed on nonmember banks. Although membership in the Sys-

tem entitles banks to access to a broad array of Federal Reserve services, the effective cost of reserves typically far exceeds the market value of these services.

The problem of membership attrition has become particularly acute in the Boston Federal Reserve District, in part because of added competitive pressures on bank earnings resulting from recently expanded powers of thrift institutions, particularly NOW accounts. Although relatively few banks have withdrawn from membership in this District, the growing sense of concern among member banks in regard to similar developments in this area was evident during a series of six regional meetings sponsored by this Bank, involving its senior management and financial and community leaders.

Concern over the membership problem has also been sharpened by pressures to provide nonmember banks and thrift institutions with direct access to certain Federal Reserve services. Traditionally, access to these services has been limited to member banks. In the early 1970's, however, with the establishment of regional check processing centers (RCPCs) and automated clearing houses (ACHs) operated on Federal Reserve facilities, nonmember banks were provided with access to certain limited payments services. The decision to provide such services to nonmembers was taken with a view toward encouraging use of these new facilities and thereby improving the nation's payments mechanism. More recently, the volume of automated payments and securities processing operations has grown, and the likelihood is that these automated operations will become increasingly important. These developments, together with the expanded deposit powers of thrift institutions, have led many nonmember banks and thrift institutions to seek direct access to Federal Reserve payments services, particularly ACH operations. Also, the Department of Justice has suggested that the Federal Reserve should grant open access to its ACH services with full pricing to encourage competition by the private sector and that, in providing these services, the Federal Reserve should not discriminate among types of institutions either by access or pricing requirements. Obviously, to the extent that Federal Reserve services are made available to nonmembers at low or no cost and without the necessity of maintaining reserve balances, the attractiveness of Federal Reserve membership will be further diminished.

The matter of developing policies which would provide equitable access by nonmember institutions to Federal Reserve payments services has thus become inextricably related to the problem of erosion in Federal Reserve membership. In January, the Board of Governors of the Federal Reserve System issued interim guidelines on access to Federal Reserve ACH services and also

indicated its intention to establish a pricing schedule applicable to Federal Reserve payments services. The resolution of these issues remains a serious concern to senior officials throughout the Federal Reserve System. Because of the complex and difficult nature of the issues and the potential impact on the financial community, no pricing schedule has yet been issued and the System is carefully considering a range of alternative solutions. At this point, however, it has become clear that the issues of access and membership should not be separated and that a satisfactory resolution to the problem of erosion of Federal Reserve membership must be included in any longer term System policy regarding access to its services by nonmember institutions.

Operational Highlights

During the year, the Bank implemented plans for establishing overnight check clearing services throughout the District with the establishment of a new office in Utica, New York, and the expansion of the Bank's Jericho Office to accommodate a new downstate RCPC. At the same time, as indicated earlier, significantly more resources were devoted to programs related to the examination, supervision, and regulation of banks and bank holding companies. These initiatives, together with continued steady increases in the volume of the Bank's operations, were undertaken at the same time that total bank employment was being reduced by about 4 percent. This followed a smaller staff reduction in 1975. The ability to reduce staff, to increase productivity, and in turn to control costs has been a direct outgrowth of the programs initiated by the Bank to improve its operations and to strengthen its planning and budgetary controls. Despite this, Bank operating expenses increased by nearly 8 percent, reflecting inflationary pressures, increased pension funding, start-up expenses for the new RCPCs, and certain extraordinary expenses in connection with the new building program.

SERVICING THE PAYMENTS MECHANISM. This Bank is engaged in a wide range of activities designed to ensure the effective operation of the nation's payments mechanism. These include conventional check processing

operations, provision of currency and coin to the banking system, electronic processing of various types of financial transactions, and issuing, servicing, and redeeming securities of the United States Government and certain Government agencies. Over the past several years, efforts to improve these operations have for the most part been directed at developing new systems for decreasing or eliminating the handling of paper payments and for processing a steadily increasing volume of transactions on a more timely basis. During 1976, notable progress was realized on several of these fronts.

During the year, the Bank completed its program for implementation of Districtwide overnight check clearing operations. In July, the Bank's Jericho Office was expanded to accommodate a new regional check processing arrangement serving the seven counties just north of New York City, and on November 18 the Bank commenced operations of an RCPC at its new Utica Office. That office serves banks located in thirty-four counties in the upstate region. Once fully operational, the new office is expected to handle an average of 650,000 items daily and, by the end of 1977, about half of the District's check processing volume will be handled by four RCPCs and the Buffalo Branch.

Progress was also realized in the implementation of the Federal recurring payments program jointly undertaken by the Treasury and the Federal Reserve to convert certain Government check payments to electronic form. Initially, that program was limited to direct deposits of Air Force salary payments to the bank accounts of active duty personnel. Following a successful test of direct deposits of social security benefits payments in the Atlanta Reserve District, this aspect of the program was phased into each Reserve District, becoming operational in the Head Office territory in November and in the Branch territory in December. Also in December, Railroad Retirement Board benefits payments were distributed electronically for the first time to the accounts of recipients who had chosen the direct deposit method. This Bank's Head Office processed about 550,000 monthly entries under these programs, which was the largest volume processed by any single Federal Reserve office. About 90 percent of that volume was distributed in magnetic tape form.

While the program to convert Government checks is still in the early stages of implementation, efforts to convert marketable Treasury and Government agency securities into book-entry form are well along. By the year-end, nearly 85 percent of the Treasury's marketable public debt was in book-entry form, as was about 80 percent of total outstanding Federal agency obligations. In both cases this was a significant increase from a year ago. During the year,

the Treasury and the Federal Reserve also announced plans to eliminate completely the issuance of pieces of definitive securities in new Treasury offerings. As part of the plan, the new procedures would initially be applied to Treasury bill offerings, and definitive securities would be made available for a limited time to a small number of investors prevented by law or regulation from holding securities in book-entry form. Following public meetings and discussions with market participants, the program was initiated with the December auction of $3.2 billion of one-year Treasury bills. The entire allotment in this District of $2.7 billion was subscribed for in book-entry form and, on a nationwide basis, only two definitive securities were issued. In 1977, the program will be extended to other offerings of Treasury bills.

The volume of electronic transfers of securities and Federal funds processed by this Bank's telecommunications system rose by about 19 percent during 1976, and the daily average dollar value of such traffic reached $71 billion. Since 1970, when the system was introduced, the daily average volume of transactions processed has risen at an annual rate of about 22 percent. This growth began to strain the capacity of the system in 1975 and, late in 1976, the Bank acquired a new telecommunications computer that will be phased into operation during 1977. It will provide adequate capacity to meet the demands likely to be placed on the system over the next several years.

Despite the growing acceptance of electronic forms of payment, the financial system still generates increasing amounts of paper payments, a large portion of which flows through the Federal Reserve Banks. During 1976, the volume of conventional checks processed by this Bank rose by 5 percent to 1.4 billion items, and the Bank also processed about 2 billion pieces of currency. To handle this volume better, a more advanced check processing system was installed at the Head Office and new equipment was introduced in the currency operation. These efforts, together with similar efforts in the securities operations, enabled the Bank to realize significant increases in productivity and reductions in staff in the Operations Group.

While most efforts to improve payments operations have relied on the introduction of technological changes, there was one notable exception during 1976, namely the reissue of the $2 bill by the Treasury and the Federal Reserve System. The purpose of the new bill was also to improve the efficiency of cash operations by reducing the volume of paper currency to be processed. To accomplish this, it had to gain acceptance as a substitute for the $1 note which, of course, costs just as much to print and handle as a $2 note. The

bill was returned to circulation in April and, although the initial demand was quite heavy, subsequent orders for the new bill have been small. During the year, about 36 million $2 bills were paid out in this District.

TRADING DESK ACTIVITY AND FOREIGN OPERATIONS. In 1976, the number of open market transactions conducted by this Bank for its own account and for the System Open Market Account increased by approximately 22 percent, while the dollar value of such transactions rose by nearly 42 percent to a level of $951 billion. Over a two-year period, the number of these transactions has increased by 47 percent and the dollar value has more than doubled. In large measure, this unusual growth in volume was a result of a change in Treasury cash management policies, which has produced frequent and sharp swings in Treasury cash balances at the Federal Reserve Banks. These swings, the average weekly magnitude of which has increased fourfold since 1974, result in equally pronounced fluctuations in bank reserve positions. In many instances, these fluctuations must be offset by open market operations. The expansion of volume in the Bank's Trading Desk area that results from this contributes in a major way to the growth in work volume in the Bank's accounting, data processing, and securities processing operations.

This Bank also acts as the operating arm of the Federal Reserve System in conducting central banking relations with foreign central banks and monetary authorities. Over the past several years, the volume of transactions conducted in the domestic securities markets by this Bank on behalf of such organizations has also increased rapidly, reflecting the significant increase in official reserves held in dollars by such nations. During 1976 the volume of these transactions continued to rise, and at the year-end the Bank held $76 billion of United States Treasury securities in custody for such organizations.

Recently, contacts between central banks in the developing and smaller industrialized countries and this Bank have been increased, with a view toward facilitating satisfactory mutual relations and better coordination of their investment activity in the United States markets. These contacts have elicited considerable interest on the part of such banks in the working of financial markets and central bank operations in this country. In October the Bank sponsored a three-week central banking seminar program to which forty-two countries sent participants. The seminar, which covered a wide range of financial and operational topics, was held principally at this Bank, but also included short visits

to other financial institutions, international organizations, the offices of the Board of Governors, and two other Reserve Banks.

During the year, the Bank played an important role in the series of gold auctions conducted by the International Monetary Fund (IMF). The auctions commenced in June 1976 and are expected to extend over a period of four years, during which time the IMF anticipates selling approximately 25 million troy ounces of fine gold. The profits from the sales will be used for the benefit of developing nations. This Bank, as the major custodian of the IMF's gold, began preparations early in the year for these auctions, including the numbering and weighing of approximately 25,000 gold bars and the delivery of the bars sold by the Fund.

TERMINATION OF NEW BUILDING PLANS. On November 12, 1976, the Bank announced that it had abandoned its plans to construct an auxiliary office building on the site to the north of its Head Office building at 33 Liberty Street. The decision was made because an analysis of construction bids and related costs indicated that total expenditures could not be held within cost restraints established by the Board of Governors.

The purpose of the auxiliary building was to improve operating efficiency by bringing together employees situated in several different locations in the downtown area and by relieving crowded conditions in portions of the Head Office building. The auxiliary building also was designed to provide certain specialized trucking and operational facilities not now available. With about 1,300 employees, or nearly 30 percent of Head Office staff, still dispersed among four different buildings near 33 Liberty Street, there has not been a significant change in the conditions that initially led the Bank to seek out a long-term solution to its space requirements. There have, however, been major changes in real estate conditions in the downtown lower Manhattan area since the Bank began planning the project. In view of these changes, the Bank has under active review several alternatives for meeting its space needs. Despite the change in its original plans and although a final decision on new alternatives has not yet been reached, the Bank will continue to occupy substantial space in the financial district.

Financial Statements

STATEMENT OF CONDITION

In dollars

Assets	DEC. 31, 1976	DEC. 31, 1975
Gold certificate account	3,349,952,359	3,330,061,781
Special Drawing Rights certificate account	300,000,000	124,000,000
Federal Reserve notes of other Banks	360,651,560	275,087,350
Other cash	29,340,214	22,551,259
Total	4,039,944,133	3,751,700,390
Advances	2,875,000	78,290,000
Acceptances:		
Bought outright	196,305,703	741,485,034
Held under repurchase agreements	794,831,023	385,095,974
United States Government securities:		
Bought outright ★	21,937,483,000	20,810,610,000
Held under repurchase agreements	3,752,800,000	1,216,700,000
Federal agency obligations:		
Bought outright	1,597,951,337	1,457,196,416
Held under repurchase agreements	278,100,000	118,200,000
Total loans and securities	28,560,346,063	24,807,577,424
Other assets:		
Cash items in process of collection	1,831,543,968	1,784,801,951
Bank premises	17,355,589	20,107,521
Due from Federal Deposit Insurance Corporation†	650,000,000	1,125,000,000
All other‡	688,454,768	724,396,964
Total other assets	3,187,354,325	3,654,306,436
Interdistrict settlement account	(3,763,077,956)	(2,609,895,974)
Total Assets	**32,024,566,565**	**29,603,688,276**

★ Includes securities loaned—fully secured	195,425,000	114,645,000

† In connection with the closing of Franklin National Bank.

‡ Includes assets denominated in foreign currencies.

STATEMENT OF CONDITION

In dollars

Liabilities	DEC. 31, 1976	DEC. 31, 1975
Federal Reserve notes	21,692,385,770	19,703,279,957
Deposits:		
Member bank reserve accounts	4,820,158,559	4,717,700,951
Due to other Federal Reserve Banks—collected funds	164,577,396	— 0 —
United States Treasury—general account	2,464,102,743	2,292,381,380
Foreign ★	176,558,876	159,007,957
Other	885,675,171	769,063,124
Total deposits	8,511,072,745	7,938,153,412
Other liabilities:		
Deferred availability cash items	1,041,267,832	1,202,944,267
All other	277,326,318	280,699,540
Total other liabilities	1,318,594,150	1,483,643,807
Total Liabilities	**31,522,052,665**	**29,125,077,176**
Capital Accounts		
Capital paid in	251,256,950	239,305,550
Surplus	251,256,950	239,305,550
Total Capital Accounts	**502,513,900**	**478,611,100**
Total Liabilities and Capital Accounts	**32,024,566,565**	**29,603,688,276**

★ After deducting participations of other Federal Reserve Banks amounting to 175,125,100 193,798,800

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1976 AND 1975 (In dollars)

	1976	1975
Total current earnings	1,708,961,080	1,660,070,216
Net expenses	136,593,653	125,660,806
Current net earnings	1,572,367,427	1,534,409,410
Additions to current net earnings:		
Profit on sales of United States Government securities and Federal agency obligations (net)	7,911,034	8,824,743
All other	458,243	1,024,713
Total additions	8,369,277	9,849,456
Deductions from current net earnings:		
Loss on foreign exchange transactions (net)★	6,444,044	63,350,936
All other	3,827,499	716,231
Total deductions	10,271,543	64,067,167
Net deductions	1,902,266	54,217,711
Net earnings available for distribution	**1,570,465,161**	**1,480,191,699**
Dividends paid	14,736,448	13,918,891
Payments to United States Treasury (interest on Federal Reserve notes)	1,543,777,313	1,461,619,158
Transferred to surplus	11,951,400	4,653,650

SURPLUS ACCOUNT

	1976	1975
Surplus—beginning of year	239,305,550	234,651,900
Transferred from net earnings for year	11,951,400	4,653,650
Surplus—end of year	**251,256,950**	**239,305,550**

★ These losses reflect the partial revaluation in 1975 of the dollar equivalent of swap commitments in Belgian francs and Swiss francs outstanding since August 1971 as well as further losses in both 1975 and 1976 as part of these commitments were actually repaid. Modest profits were realized from current foreign exchange operations in both years.

Changes in Directors and Senior Officers

CHANGES IN DIRECTORS. In December 1976, member banks in Group 1 elected Ellmore C. Patterson a Class A director and reelected Maurice F. Granville a Class B director, each for a three-year term beginning January 1, 1977. Mr. Patterson, Chairman of the Board of Morgan Guaranty Trust Company of New York, New York, N.Y., succeeded David Rockefeller, Chairman of the Board of The Chase Manhattan Bank (National Association), New York, N.Y., who served as a Class A director from January 1, 1973 through December 31, 1976. Mr. Granville, Chairman of the Board of Texaco Inc., New York, N.Y., has been a Class B director since March 14, 1972.

In addition, the Board of Governors of the Federal Reserve System redesignated Frank R. Milliken as *Chairman* of the board of directors and *Federal Reserve Agent* for the year 1977. Mr. Milliken, President of Kennecott Copper Corporation, New York, N.Y., has been serving as a Class C director since January 1973 and as *Chairman* and *Federal Reserve Agent* since January 1976; he had served as *Deputy Chairman* during 1973, 1974, and 1975. At the same time, the Board of Governors reappointed Robert H. Knight as *Deputy Chairman* for the year 1977. Mr. Knight, a partner in the New York law firm of Shearman & Sterling, has been serving as a Class C director, and as *Deputy Chairman,* since February 1976.

Effective December 31, 1976, Alan Pifer's term as a Class C director expired, resulting in a temporary vacancy on the board. Mr. Pifer, President of Carnegie Corporation of New York, New York, N.Y., had served as a Class C director since October 1971.

In addition, effective February 1, 1977, Jack B. Jackson resigned as a Class B director, thereby creating a temporary vacancy on the board for the unexpired portion of his three-year term ending December 31, 1978. Mr. Jackson, former President of J.C. Penney Co., Inc., New York, N.Y., had served as a Class B director since January 1973.

Buffalo Branch. In May 1976, the board of directors of this Bank appointed Kent O. Parmington, who is Regional President, Western Region, of The Bank of New York, Buffalo, N.Y., as a director of the Buffalo Branch for the unexpired portion of a three-year term ending December 31, 1978. Mr. Parmington succeeded Avery H. Fonda, who retired as President of Liberty National Bank and Trust Company, Buffalo, N.Y., and resigned as a director of the Buffalo

Branch. Mr. Fonda had served on the Branch board since January 1976. In December, the board of directors of this Bank appointed M. Jane Dickman, who is a partner in the accounting firm of Touche Ross & Co., Buffalo, N.Y., and William B. Webber, who is Chairman of the Board of Lincoln First Bank of Rochester, Rochester, N.Y., as directors of the Buffalo Branch for three-year terms ending December 31, 1979. On the Branch board, they succeeded J. Wallace Ely, Chairman of the Board, Security New York State Corporation, Rochester, N.Y., and Daniel G. Ransom, President, The Wm. Hengerer Co., Buffalo, N.Y., who had been serving on the Branch board since January 1974. (Mr. Ely also served as a director of the Buffalo Branch from January 1965 through 1967.) Also in December, the board of directors of this Bank designated Paul A. Miller as *Chairman* of the Branch board for the year 1977. Dr. Miller, who is President of the Rochester Institute of Technology, Rochester, N.Y., has been a director of the Branch since January 1975. In February 1977, the Board of Governors appointed Frederick D. Berkeley a director of the Buffalo Branch for a three-year term ending December 31, 1979. Mr. Berkeley is Chairman of the Board and President of Graham Manufacturing Co., Inc., Batavia, N.Y. On the Branch board, he succeeded Rupert Warren, former President of Trico Products Corporation, Buffalo, N.Y., who had been a director of the Branch since January 1971, serving as *Chairman* of the Branch board in 1973 and 1976.

CHANGES IN SENIOR OFFICERS. The following changes in the official staff, at the level of Vice President and above, have been made since January 1976:

Thomas M. Timlen, formerly Executive Vice President, was appointed to the position of First Vice President and Chief Administrative Officer, effective July 1, 1976, for the unexpired portion of a five-year term, ending February 28, 1981. Mr. Timlen succeeded Richard A. Debs, who resigned from the Bank effective August 31, 1976.

Peter D. Sternlight, formerly Vice President, was appointed Senior Vice President, effective January 1, 1977, and assigned as the officer in charge of the Open Market Operations and Treasury Issues Function.

Peter Bakstansky was appointed an officer of the Bank with the title of Vice President, effective February 20, 1976, and assigned to Public Information as the officer in charge of that function. Prior to joining the Bank, Mr. Bakstansky was Vice President and Director of Corporate Communications, Bache & Co. Incorporated, New York, N.Y.

E. Gerald Corrigan, formerly Adviser, and Secretary, was appointed Vice President, effective July 1, 1976, and assigned as the officer in charge of the Personnel Function.

Ronald B. Gray, Vice President and Branch Manager at the Buffalo Branch, was appointed Vice President at the Head Office, effective July 1, 1976, and assigned to the Bank Supervision and Relations Function, with supervisory responsibility for the operations of the Bank Examinations and Bank Relations Departments, under Fred W. Piderit, Jr., Senior Vice President. Effective January 1, 1977, Mr. Gray was also assigned supervisory responsibility for the operations of the Bank Analysis Department.

John T. Keane, Vice President, was appointed Vice President and Branch Manager at the Buffalo Branch, effective July 1, 1976.

John E. Flanagan, formerly Assistant General Auditor, was appointed General Auditor, effective October 1, 1976. Mr. Flanagan succeeds George C. Smith, who retired as of that date after completing forty-two years of distinguished service with the Bank.

Richard G. Davis, formerly Vice President, was appointed Senior Economic Adviser, effective January 1, 1977, with responsibility for advice and special studies with respect to economic affairs and monetary policy.

Peter Fousek, formerly Economic Adviser, was appointed Vice President and Director of Research, effective January 1, 1977, and assigned as the officer in charge of the Research and Statistics Function.

Chester B. Feldberg, Vice President, was assigned as the officer in charge of the Loans and Credits Function, effective January 1, 1977. Also effective January 1, 1977, the assignment of H. David Willey, Vice President, to that function was terminated. Mr. Willey's assignment to the Foreign Function, with supervisory responsibility for activities relating to foreign central bank accounts and international institutions, continues.

Operations Group

James O. Aston, formerly Assistant Vice President, was appointed Vice President, effective January 1, 1977, and assigned as the officer in charge of the Check Processing Function.

Karl L. Ege, Vice President, was appointed Vice President and Operations Adviser, effective January 1, 1977, and assigned to the Operations Group (consisting of the Cash and Collection, Check Processing, and Government Bond and Safekeeping of Securities Functions), with responsibility for advice and special studies with respect to Operations Group matters.

Edwin R. Powers, formerly Assistant Vice President, was appointed Vice President, effective January 1, 1977, and assigned to the Government Bond and Safekeeping of Securities Function, with supervisory responsibility for the operations of the function, under Robert L. Cooper, Vice President. Mr. Powers' assignment was in anticipation of the retirement of Mr. Cooper on May 1, 1977.

MEMBER OF FEDERAL ADVISORY COUNCIL—1977. The board of directors of this Bank selected Walter B. Wriston, Chairman of the Board of Citibank, N.A., New York, N.Y., to serve during 1977 as the member of the Federal Advisory Council representing the Second Federal Reserve District. On the Council, Mr. Wriston succeeded Ellmore C. Patterson, Chairman of the Board of Morgan Guaranty Trust Company of New York, New York, N.Y., who was this District's member in 1975 and 1976.

Directors of the Federal Reserve Bank of New York

DIRECTORS	Term expires Dec. 31	Class	Group
ELLMORE C. PATTERSON Chairman of the Board, Morgan Guaranty Trust Company of New York, New York, N.Y.	1979	A	1
STUART MCCARTY President, First-City National Bank of Binghamton, Binghamton, N.Y.	1977	A	2
HARRY J. TAW President, First National Bank of Cortland, Cortland, N.Y.	1978	A	3
MAURICE F. GRANVILLE Chairman of the Board, Texaco Inc., New York, N.Y.	1979	B	1
WILLIAM S. SNEATH Chairman of the Board, Union Carbide Corporation, New York, N.Y.	1977	B	2
VACANCY	1978	B	3
FRANK R. MILLIKEN, *Chairman, and Federal Reserve Agent* President, Kennecott Copper Corporation, New York, N.Y.	1978	C	
ROBERT H. KNIGHT, *Deputy Chairman* Partner, Shearman & Sterling, Attorneys, New York, N.Y.	1977	C	
VACANCY	1979	C	

DIRECTORS—BUFFALO BRANCH	
PAUL A. MILLER, *Chairman* President, Rochester Institute of Technology, Rochester, N.Y.	1977
CHARLES A. MARKS President, Alden State Bank, Alden, N.Y.	1977
DONALD R. NESBITT, SR. Owner and operator, Silver Creek Farms, Albion, N.Y.	1978
KENT O. PARMINGTON Regional President, Western Region, The Bank of New York, Buffalo, N.Y.	1978
M. JANE DICKMAN Partner, Touche Ross & Co., Buffalo, N.Y.	1979
WILLIAM B. WEBBER Chairman of the Board, Lincoln First Bank of Rochester, Rochester, N.Y.	1979
FREDERICK D. BERKELEY Chairman of the Board and President, Graham Manufacturing Co., Inc., Batavia, N.Y.	1979

MEMBER OF FEDERAL ADVISORY COUNCIL—1977	
WALTER B. WRISTON Chairman of the Board, Citibank, N.A., New York, N.Y.	1977

Officers of the Federal Reserve Bank of New York

PAUL A. VOLCKER, *President*
THOMAS M. TIMLEN, *First Vice President*
ALAN R. HOLMES, *Executive Vice President*
Foreign; Open Market Operations and Treasury Issues

EDWARD G. GUY, *Senior Vice President and General Counsel*
Legal

FRED W. PIDERIT, JR., *Senior Vice President*
Bank Supervision and Relations

THOMAS C. SLOANE, *Senior Vice President*
Operations Group (Cash and Collection; Check Processing; Government Bond and Safekeeping of Securities)

PETER D. STERNLIGHT, *Senior Vice President*
Open Market Operations and Treasury Issues

ACCOUNTING CONTROL

A. MARSHALL PUCKETT, *Vice President*
HENRY S. FUJARSKI, JR., *Assistant Vice President*
CATHY E. MINEHAN, *Manager, Management Information Department*
JOHN J. STRICK, *Manager, Accounting Department*

AUDIT

JOHN E. FLANAGAN *General Auditor*
WILLIAM M. SCHULTZ, *Assistant General Auditor*
DONALD R. ANDERSON, *Manager, Auditing Department*
W. WILLIAM BAUMGARDT, *Manager, Auditing Department*
GERALD I. ISAACSON, *Manager, Audit Analysis Department*

BANK SUPERVISION AND RELATIONS

FRED W. PIDERIT, JR., *Senior Vice President*
RONALD B. GRAY, *Vice President*
FREDERICK C. SCHADRACK, *Vice President*
LEON KOROBOW, *Assistant Vice President*
BENEDICT RAFANELLO, *Assistant Vice President*
FRED C. HERRIMAN, JR., *Manager, Domestic Banking Applications Department*
ROBERT A. JACOBSEN, *Chief Examiner*
EDWARD F. KIPFSTUHL, *Manager, Bank Regulations Department*
FRANKLIN T. LOVE, *Manager, Bank Relations Department*
THEODORE N. OPPENHEIMER, *Manager, Foreign Banking Applications Department*
DONALD E. SCHMID, *Manager, Bank Analysis Department*
JOHN M. CASAZZA, *Assistant Chief Examiner*
A. JOHN MAHER, *Assistant Chief Examiner*

BUILDING AND PLANNING

ROBERT E. LLOYD, JR., *Vice President*
LOUIS J. BRENDEL, *Assistant Vice President*
A. THOMAS COMBADER, *Buildings Administrator*
MATTHEW C. DREXLER, *Manager, Building Operating Department*
RONALD E. LONG, *Manager, Planning Department*

DATA SERVICES

PAUL B. HENDERSON, JR., *Vice President*
HOWARD F. CRUMB, *Adviser*
DENIS L. CONWAY, *Manager, Custom Systems Department*
PETER J. FULLEN, *Manager, Telecommunications Department*
OLEG HOFFMAN, *Manager, Computer Operations Department*
ANGUS J. KENNEDY, *Manager, User Operations Department*
RALPH C. SCHINDLER, *Data Services Officer*
ISRAEL SENDROVIC, *Manager, Common Systems Department*

ECONOMIC ADVISER

RICHARD G. DAVIS, *Senior Economic Adviser*

EQUAL OPPORTUNITY

RUTH ANN TYLER, *Equal Opportunity Officer*

FOREIGN

ALAN R. HOLMES, *Executive Vice President*
SCOTT E. PARDEE, *Vice President*
H. DAVID WILLEY, *Vice President*
ROBERT J. CROWLEY, *Assistant Vice President*
MARGARET L. GREENE, *Assistant Vice President*
JOHN HOPKINS HEIRES, *Adviser*
FRED H. KLOPSTOCK, *Adviser*

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Thomas C. Barman,
Foreign Exchange Officer
George H. Bossy,
Manager, Foreign Department
Roger M. Kubarych,
Foreign Exchange Officer
George W. Ryan,
Manager, Foreign Department

LEGAL

Edward G. Guy, *Senior Vice President and General Counsel*
James H. Oltman, *Deputy General Counsel*
Leopold S. Rassnick, *Assistant General Counsel*
Richard D. Coopersmith, *Associate Counsel*
Ernest T. Patrikis, *Associate Counsel and Assistant Secretary*
Mary J. Rodgers, *Associate Counsel*
Donald L. Bittker, *Assistant Counsel*
Robert N. Davenport, Jr., *Assistant Counsel*
Jane L. Detra, *Assistant Counsel and Assistant Secretary*
Lawrence D. Fruchtman, *Assistant Counsel*
Clifford N. Lipscomb, *Assistant Counsel*
Don N. Ringsmuth, *Assistant Counsel*

LOANS AND CREDITS

Chester B. Feldberg, *Vice President*
Suzanne Cutler, *Assistant Vice President*
Eugene P. Emond,
Manager, Credit and Discount Department
Herbert H. Ruess,
Manager, Credit and Discount Department

OPEN MARKET OPERATIONS AND TREASURY ISSUES

Alan R. Holmes, *Executive Vice President*
Peter D. Sternlight, *Senior Vice President*
Paul Meek, *Monetary Adviser*
Irwin D. Sandberg, *Assistant Vice President*
Sheila L. Tschinkel, *Adviser*
John S. Hill, *Senior Economist*
Edward J. Ozog,
Manager, Securities Department
Mary R. Clarkin, *Securities Trading Officer*
Joan E. Lovett, *Securities Trading Officer*

OPERATIONS GROUP

Thomas C. Sloane, *Senior Vice President*
Karl L. Ege, *Vice President and Operations Adviser*

CASH AND COLLECTION

William H. Braun, Jr., *Vice President*
Jerry Berkowitz,
Operations Analysis Officer
John Chowansky,
Manager, Cash Department
Gerald Hayden,
Manager, Cash Custody Department, and Manager, Collection Department

CHECK PROCESSING

James O. Aston, *Vice President*
Robert C. Thoman, *Vice President (Utica Office)*
Whitney R. Irwin, *Assistant Vice President (Cranford Office)*
Joseph M. O'Connell, *Assistant Vice President (Jericho Office)*
Leonard I. Bennetts,
Manager, Check Adjustment and Return Items Department
Ralph A. Cann, III,
Operations Analysis Officer
Fred A. Denesevich,
Operations Officer, Cranford Office
Edward H. Denhoff,
Operations Officer, Utica Office
John C. Houhoulis,
Manager, Payment Systems Department
Jerome P. Perlongo,
Manager, Check Processing Department
John F. Sobala,
Manager, Check Processing Department

GOVERNMENT BOND AND SAFEKEEPING OF SECURITIES

Robert L. Cooper, *Vice President*
Edwin R. Powers, *Vice President*
Richard Vollkommer, *Assistant Vice President*
William H. Wetendorf, *Assistant Vice President*
Jorge A. Brathwaite,
Manager, Government Bond and Safekeeping Department
Paul J. Cieurzo,
Manager, Government Bond and Safekeeping Department
Leon R. Holmes,
Manager, Security Custody Department
Francis H. Rohrbach,
Manager, Savings Bond Department
Stephen P. Weis,
Manager, Government Bond and Safekeeping Department

PERSONNEL

E. Gerald Corrigan, *Vice President*
Philip Van Orman, *Assistant Vice President*
Bruce G. Alexander,
Manager, Personnel Department

Officers *(Continued)*

TERRENCE J. CHECKI,
Manager, Personnel Department
ROBERTA J. GREEN,
Manager, Personnel Department

PUBLIC INFORMATION

PETER BAKSTANSKY, *Vice President*
RICHARD H. HOENIG, *Assistant Vice President*

RESEARCH AND STATISTICS

PETER FOUSEK, *Vice President and Director of Research*

MICHAEL J. HAMBURGER, *Adviser*
LAWRENCE A. MAYER, *Adviser*
ANTON S. NISSEN, *Assistant Vice President*
RUDOLF THUNBERG, *Assistant Vice President*

MARCELLE V. ARAK, *Senior Economist*
EDNA E. EHRLICH,
Manager, International Research Department
FRED J. LEVIN, *Senior Economist*

CHARLES M. LUCAS,
Manager, Statistics Department
GARY H. STERN,
Manager, Domestic Research Department

SECRETARY'S OFFICE

STEPHEN G. THIEKE, *Secretary*
JANE L. DETRA, *Assistant Secretary and Assistant Counsel*
ERNEST T. PATRIKIS, *Assistant Secretary and Associate Counsel*

SERVICE

FREDERICK L. SMEDLEY, *Vice President*
CECIL A. SHEPHERD, *Assistant Vice President*
LOUIS J. CONROY,
Manager, Records Management and Emergency Planning Department
FRANK W. LUNDBLAD, JR.,
Manager, Protection Department
HENRY F. WIENER,
Manager, Service Department

OFFICERS—BUFFALO BRANCH

JOHN T. KEANE, *Vice President and Branch Manager*

PETER D. LUCE, *Cashier*

ACCOUNTING; BANK RELATIONS AND PUBLIC INFORMATION; CHECK

ROBERT J. MCDONNELL, *Assistant Cashier*

BUILDING OPERATING; CASH; PROTECTION

HARRY A. CURTH, JR., *Assistant Cashier*

COLLECTION, LOANS, AND FISCAL AGENCY; PERSONNEL; SERVICE

GARY S. WEINTRAUB, *Assistant Cashier*

MANAGEMENT INFORMATION

PETER D. LUCE, *Cashier*

THE SECOND FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF NEW YORK
33 Liberty Street
New York, N. Y. 10045

Date Due

MAR 3			